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CHINA REPORT ECONOMIC AFFAIRS

CONTENTS

NATIONAL POLICY AND ISSUES

Gap Between East, West China Reported Widening (Guo Zhongshi; CHINA DAILY, 23 Sep 86)	1
LIAOWANG Evaluates PRC Economic Situation (Hei Aitang, Zhang Junkuo; LIAOWANG OVERSEAS EDITION, No 38, 22 Sep 86)	3
LIAOWANG on Evaluating Construction Projects (Yun Lin; LIAOWANG OVERSEAS EDITION, No 38, 22 Sep 86)	7
RENMIN RIBAO on Financial Theoretical Seminar (Chen Dehong, Hu Xuehao; RENMIN RIBAO, 19 Sep 86)	10
Commodity Economy Development, Economic System Reform (Liu Guoguang; SHIJIE JINGJI DAOBAO, 14 Jul 86)	12

ECONOMIC DEVELOPMENT ZONES

Bohai Bay Economic, Technical Development Zone Discussed (Yang Haitian; KEXUEXUE YU KEXUE JISHU GUANLI, No 6, Jun 86)	20
--	----

ECONOMIC PLANNING

Hainan Draws Up Plan for Construction of Yangpu Port (Guangdong Provincial Service, 24 Aug 86)	24
---	----

AGGREGATE ECONOMIC DATA

Guangdong Province Economic Growth Rate Soars (XINHUA, 24 Sep 86)	25
--	----

ECONOMIC MANAGEMENT

Economic Reforms in Liaoning (Yang Dongyi; WEN WEI PO, 15 Jul 86)	27
--	----

FINANCE AND BANKING

Bankruptcy Law in Shenyang (Yang Dongyi; WEN WEI PO, 16 Jul 86)	29
Rectification of 'Small Cash Box' Problem Discussed (Li Xiaobo; CAIZHENG YANJIU, No 7, 28 Jul 86)	31
Shenyang Plans Stock Exchange (Yang Dongyi; WEN WEI PO, 17 Jul 86)	38

INDUSTRY

Development Strategy for Ningxia Metallurgical Industry (Hei Baili; NINGXIA RIBAO, 26 May 86)	40
Modernization in the Automobile Industry (WEN WEI PO, 25 Jun 86)	44
Three Changes Urged in Industrial Development Strategy (Zheng Xiaonong; JINGJI RIBAO, 30 Jun 86)	46
Latent Crisis Looms Over Industrial Enterprises (Zhang Gaopeng, Yao Wenbin; LIAOWANG, No 27, 7 Jul 86) ...	49
Export of Light Industry Products Shows Sizable Increase (ZHONGGUO QINGGONGYE BAO, 31 Jul 86)	52
Shenyang's Tiexi Zone Plans Renewal Program (Liu Shan hong; CHINA DAILY, 10 Sep 86)	54
Briefs Sichuan Industry, Communications	57

SMALL-SCALE ENTERPRISES

Boom in Anhui Township Enterprises (Wang Yuzhao; NONGMIN RIBAO, 12 May 86)	58
Jiangxi Plans To Speed Up Township Enterprise Development (Zhu Bei; ZHONGGUO XIANGZHEN QIYE BAO, 9 Jul 86)	62
On Hubei's Township Enterprises (RENMIN RIBAO OVERSEAS EDITION, 24 Jul 86)	65
Township and Town Enterprises in Ascendancy (He Kang; ZHONGGUO XIANGZHENQIYE BAO, 20 Aug 86)	67

Development of Township and Town Enterprises Reviewed (Zhou Handa; ZHONGGUO XIANGZHENQIYE BAO, 20 Aug 86)	70
CONSTRUCTION	
Construction Begins on Bridge Across Songhua Jiang (Zhou Yanhe, Zhang Limin; HEILONGJIANG RIBAO, 3 Jul 86) ...	72
Improvement of Construction Quality Urged (Ge Daxing; RENMIN RIBAO, 13 Aug 86)	73
Hebei: Construction of Blast Furnace Begins (HEBEI RIBAO, 16 Aug 86)	75
DOMESTIC TRADE	
Sichuan's Domestic Trade Seen as Vigorous (Gu Guocai; SICHUAN RIBAO, 10 Jul 86)	76
FOREIGN TRADE AND INVESTMENT	
Anhui Makes New Use of Foreign Investment in 1986 (Han Shu; ANHUI RIBAO, 28 May 86)	78
Foreign Exchange Loans to Yunnan Increased in Sixth 5-Year Plan (Zhou Xiyuan; YUNNAN RIBAO, 27 May 86)	79
Ningxia Commodity Inspection Bureau Aids Foreign Trade (Pan Mengyang, Jiang Senlin; NINGXIA RIBAO, 8 May 86)	81
SPECIAL ECONOMIC ZONES	
Investment Climate in Special Economic Zones (Chen Zhaobin; GUANGDONG SHEHUI KEXUE, No 2, Jun 86)	83
Shenzhen's Economic Development Strategy (Liu Peiqiong; GUANGDONG SHEHUI KEXUE, No 2, Jun 86)	89
POPULATION	
On Beijing's Aging Population (Shi Yan, Shi Lin; BEIJING RIBAO, 7 Jul 86)	95
TRANSPORTATION	
Transport Cargo Volume Shows Increase (CHINA DAILY, 20 Aug 86)	99
Briefs	
Railway Construction Projects	100
Direct Chartered Flights Begin	100

NATIONAL POLICY AND ISSUES

GAP BETWEEN EAST, WEST CHINA REPORTED WIDENING

HK230201 Beijing CHINA DAILY in English 23 Sep 86 p 1

[Article by Staff Reporter Guo Zhongshi]

[Text] The historical gap between the eastern part of China, which enjoys the highest cash income in the country, and the poverty-stricken western part has widened despite the fact that the west is benefiting from current economic reforms.

Although the west is being slowly helped out of poverty, a fundamental change depends heavily on adoption of effective measures to utilize fully the surprisingly rich natural resources lying untouched beneath the ground, according to the State Statistics Bureau.

A recent survey by the bureau in eastern, central and western China, shows that the speed of development of agriculture, industry and transport as well as the growth of retail volume and farm income still differ sharply, calling for urgent action to turn resource superiority into economic superiority.

The eastern part comprises eight coastal provinces and the three municipalities of Beijing, Tianjin and Shanghai. The central part includes Heilongjiang, Jilin, Shanxi, Inner Mongolia, Henan, Hubei, Hunan, Anhui and Jiangxi. All the rest of the country is considered western.

Agricultural and industrial output last year was valued at 692.7 billion yuan (\$190 billion) in the east, 352 billion yuan (\$90 billion) in the central area and 172.1 billion yuan (\$47 billion) in the west.

In the west, output of grain, cotton and oil dropped last year below the 1980 level, while in the east it was rising steadily.

According to the bureau, total investment in capital construction by State organizations and enterprises was 162.7 billion yuan in the five years from 1981 to 1985 in the east part, 99.7 billion yuan in the central area and 58.8 billion yuan in the west.

Poverty in the west is attributed to shortages of transport, technology, equipment, educational facilities and money.

China still has 27.32 million people in rural areas who suffer shortages of food and clothing with an average net income of 150 yuan a year; 65.8 percent of them live in the west.

People are moving out of the west to the economically developed eastern and central regions, especially skilled workers and technicians, seriously affecting development of the west.

The bureau suggests that the east which lacks raw materials and energy, should join in exploration and exploitation of the natural resources of the west for its own benefit.

As the west has been a major base for the country's military industry, enterprises engaged in military production could use their technology, equipment and technicians for civilian production of nonferrous metal, chemical and energy industries, the survey report says. They could also help local enterprises develop high-tech products.

With large proven deposits of many minerals and rich resources in water, forests and grassland, the west could well achieve prosperity if policies made according to the specific conditions of the west are adopted, the bureau says.

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NATIONAL POLICY AND ISSUES

LIAOWANG EVALUATES PRC ECONOMIC SITUATION

HK280610 Hong Kong LIAOWANG OVERSEAS EDITION in Chinese No. 38, 22 Sep 86

[Article by Hei Aitang [7815 1947 1016] and Zhang Junkuo [1728 6511 2368]:
"Analysis of the Current Economic Situation and Remedial Measures"--passages
within slantlines published in boldface]

[Text] By adopting a series of measures to strengthen macroeconomic control, the central authorities were able in the first half of this year to achieve some success in solving the problems of an inflated gross demand and of an overheated economy, which were precipitated in the fourth quarter of 1984. The ultra-high industrial growth rate was halted. The growth rate between January and July was 5 percent. There was quite an abundant supply of retail goods, prices were stable, savings of both urban and rural dwellers increased significantly, much currency was efficiently withdrawn from circulation, and the situation was quite favorable compared with the precarious situation last year. This is a stable aspect of the current economic situation.

On the other hand, since China has just embarked on the reform of its urban economic structure, a development pattern characterized by the attainment of constantly better economic results still leaves something to be desired. In addition, since the implementation of its tightening policy is not satisfactorily combined with its efforts to regulate its economy, there is the problem of "too much uniformity." Thus, despite the success in controlling the total figures [zong liang--4920 6852], problems concerning the economic structure are becoming more and more serious and, despite the sustained economic growth, the economic results are becoming less and less gratifying. The control of the total figures is an administrative constraint incapable of checking excessive growth. Thus, whenever it weakens, the pace of growth will quicken again. At present, some people are still calling for efforts to increase investment and stimulate demand. This is an omen that merits our attention.

The Practice of Distributing Too Much of the Country's National Income Remains Unchanged

In the first half of this year, investment in fixed assets by enterprises owned by the whole people totaled 48.9 billion yuan, a 173 percent increase over the same period in 1985. Since this growth rate is even higher than last year's ultra-high growth rate, obviously it is a very high growth rate. It is

planned that this year, enterprises owned by the whole people will invest 157 billion yuan in fixed assets, 7 percent less than last year's 168 billion yuan. However, it can be seen from the picture in the first half of this year that investment in fixed assets is still increasing. Compared with that in the same period in 1985, the total amount of the banks' cash wage payments in the first half of this year was 20.5 percent greater. The wages of the workers of enterprises owned by the whole people increased by 20.1 percent. These two figures are much greater than the growth rates of industrial production, of light industrial production, and of productivity in the first half of this year, which were 4.9 percent, 5.1 percent, and 0.2 percent, respectively.

Thus, it can be seen from the increase in investment and consumption funds that although the growth rates in the first half of this year were lower than those in 1985, the practice of "distributing too much" has not fundamentally changed. Particularly as a result of the "distribution of too much" of the country's national income over the past few years, problems have accumulated and developed into a few "hidden trends." If these are not properly resolved, they will affect the steady development of the country's national economy.

The Several "Hidden Trends" that Merit Our Attention

/Economic results are declining./ Compared with those in the first half of last year, the output value of budgeted state-owned industrial enterprises was 3.1 percent greater, their income from sales of their products was 6.3 percent higher, but the total amount of taxes and profits collected was 2.2 percent smaller in the first half of this year. In addition, both the number of money-losing enterprises and their losses grew, whereas production declined in the industrial enterprises in large cities and in old industrial bases. All this is not a result of some unforeseen circumstances, but mainly a reflection of the protracted contradictions between the old economic structure and economic development.

/There is still a shortage of working funds./ The shortage of working funds is less serious now than at the beginning of this year. However, the problem has become less serious at the expense of economic results and because people are borrowing more and more money. In the second half of this year, industrial production will grow at a quicker pace, the enterprises will expand their purchasing and marketing business, and, in particular, some enterprises will have to purchase and store up vast quantities of raw materials. Thus, it is inevitable that the need for working funds will be much greater than that predicted by the state plans. The industrial enterprises' great demand for loans to be used as working funds is basically a result of the fact that investment in fixed assets has absorbed a very large portion of their working funds. Since 1983, when the banks assumed sole responsibility for the supply of working funds, the ratio of the amount of working funds accumulated to the total amount of all kinds of funds accumulated has dropped from about 30 percent to 16 percent and the contradictions between demand and supply have been steadily sharpening. The practice of using reserve working funds to expand investment in fixed assets can only step up investment with the undesirable result that there will be a greater demand for working funds. Another two important reasons for the decrease in working funds are that some

enterprises have used working funds for wage and bonus payments and that turnover has become slower. Thus, it can be seen that behind the shortage of working funds, there are complicated problems concerning the economic system and the economic structure. These problems cannot be resolved simply by making money tight or easy. We must try to fundamentally resolve them by summing up experience.

/Import exceeds export in foreign trade./ Although in the first half of this year China was able to very satisfactorily execute its export plans, however, since this year's imports were arranged on the basis of last year's overheated economy and have to be paid for with much of China's foreign exchange on hand, import will still exceed export this year. The prices of oil, tin, tungsten, sand, and agricultural and sideline products have fallen sharply on the international market. This adversely affects China's exports. Thus, it is necessary to alleviate the financial pressure by broadening sources of revenue and reducing expenditure.

/The slow increase in revenue./ This year's financial budget was prepared on the basis of last year's ultra-high growth rate. Thus, it recommends high expenditure. According to the relevant departments, because of some special circumstances, there was an increase of more than 40 billion yuan in revenue last year. However, this year, these special circumstances are either non-existent or rapidly disappearing. Thus, some sources of revenue are missing. Our experience tells us that normally, China's revenue exceeds its expenditure in July and August. However, this happened in April this year. Because of the declining economic results, the increase in the amount of foreign trade subsidies, and the decrease in the income derived from custom duties, it is unlikely that there will be a drastic increase in revenue in the second half of this year. The finance departments are now trying to prevent expenditure from increasing.

Possible Remedial Measures

Summing up the above points, one can say that basically, the current economic situation is characterized by the coexistence of stabilizing and destabilizing factors. The authors' opinion is that given the complicated circumstances, it is necessary to thoroughly solve this problem by adopting the following remedial measures:

1. Leaders responsible for economic work should shift the focus of their work onto improving and strengthening macroeconomic control and restraining the gross demand of society in order to create an agreeable economic environment for the reforms. If we cannot put gross demand of society under control, we will find that there will be tension and risks and that the reforms cannot be smoothly carried out. This is a very important condition for facilitating the reforms in the future and for the sustained, steady, and coordinated development of the national economy.

2. It is necessary to take another look at the country's financial resources, its credit funds, its supply of goods and materials, and its foreign exchange reserves, to resolutely cancel, on the basis of the principle of keeping expenditure within the limit of revenue, those projects and arrangements that

we can ill afford, and to try to bring about a balanced national economy with balanced components. The banks should try their best to absorb deposits and to increase the sources of capital in order to balance their income and expenditure regarding their credit service.

3. It is necessary to resolutely restrain the demand for investment funds. By restraining the demand for investment funds, we can contain consumption somewhat. In order to restrain the demand for investment funds, it is first necessary to put construction under control. If construction is allowed to become too extensive, it would be difficult to put investment scale under control. Recently, the central authorities have made up their minds to sort out the ongoing construction projects. The most urgent task now is to resolutely cancel a large number of projects. Otherwise, the contradictions cannot be resolved. The main problem at present is that extra-budgetary investment has gone out of control. Thus, it is necessary to devise some methods on the basis of the actual circumstances in order to put extra-budgetary investment under control. Otherwise, restraining the demand for investment funds is just idle talk.

4. It is necessary to earnestly readjust the national economy. It is first necessary to properly readjust the distribution of investment and, at the same time, devote vigorous efforts to readjusting existing enterprises. It is necessary, by making overall arrangements, to strengthen planning in various industries and trades, to offset weak points with strong points, to encourage the competent, to weed out the incompetent, to develop lateral economic ties, to reorganize and combine enterprises, and to strengthen technical transformation by improving the cooperation between specialized departments.

It is necessary to constantly readjust the product mix in the light of market changes and to improve the quality of products. With the in-depth development of the economic reforms, the enterprises will be required to gradually make the perfection of their internal mechanisms and the readjustment of their product mix "automatic and spontaneous."

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NATIONAL POLICY AND ISSUES

LIAOWANG ON EVALUATING CONSTRUCTION PROJECTS

HK261344 Hong Kong LIAOWANG OVERSEAS EDITION in Chinese No. 38, 22 Sep 86 pp 13-14

[Article by Yun Lin [1926 2651]: "Major Changes in China's Policy Decision on Economic Construction"]

[Excerpts] Abstract: In the past, many construction projects in China caused acute waste because they were started in haste without sufficient technological and economic information. In this connection, Chinese Premier Zhao Ziyang gave his views on the question: "From now on all major construction projects should be discussed and examined by a consulting company before they start, and should not be decided on by leading administrative bodies alone [word indistinct,] China International Engineering Consultants Incorporated is charged with the task. [end abstract]

In March this year, the China nonferrous Metal Industry Corporation submitted a draft investment plan to the State Planning Commission for approval. The plan was drawn up for building a copper product plant to be jointly run by Fuzhou City and the American Century Brass Foundry, with a total investment of U.S.\$36 million. To this end, China International Engineering Consultants Incorporated carried out in-depth investigations on world market prices, the present state of processing copper product in the country, and the financial standing of the American investor. It was finally proved that equipment of the American Brass Foundry was obsolete and overestimated in cost and its financial standing was not fine. Moreover, as early as last year the factory presented a bankruptcy petition and sold all its equipment at auction. Therefore, the consultants incorporated came to the conclusion that the joint investment was not feasible. In addition to this, China's current capacity for processing copper products is stronger than its productive capacity to produce copper but the existing capacity is not fully used; however there is only a small profit to be made for marketing copper products in the world market. For this reason, from both the technological and economic point of view, it is not wise to invest in the joint venture.

This is one of the cases handled by China International Engineering Consultants Incorporated, the biggest company of its kind in China, which has accepted 167 construction projects from the government to look into the feasibility of investment.

Make An Overall Appraisal of An Investment Project Before Coming To a Decision

With approval of the State Council, in April and June this year the State Economic Commission and the State Planning Commission twice issued a joint circular to the nation, stating: from now on the feasibility study reports on building large and medium-sized capital construction projects and non-technological transformation projects as well as designing large projects should be first examined by China International Engineering Consultants Incorporated for their technological planning and economic effects before the State Planning Commission list them in the state plan. All projects which are found not practical should not be listed in the state plan. This is an important reform for China's policy decision on economic construction.

There are two principal lessons that we can draw from economic construction carried out since 1949. One is the frequent occurrence of excessive investment in fixed assets; and the other is inadequate preparations for construction projects. In the past leading bodies often decided on the construction of many projects without sufficient technological and economic information. These projects were started in haste without getting things ready beforehand such as evaluation work and design, thus causing a prodigious waste of money.

Such a situation was bound to change. Since 1979, China has paid attention to deciding on major construction projects in a scientific and democratic way. We devoted much time to feasibility studies of such large construction projects as the Baoshan iron and steel complex and the three-gorge project, but the study of some projects was undertaken when problems arose after a policy decision was made. Premier Zhao Ziyang pointed out: "From now on all major construction projects should be discussed and examined by the consulting company, and should not be decided on by leading administrative bodies alone." Hence, China International Engineering Consultants Incorporated has been charged with this heavy task.

An Engineering Consultancy Group Has Risen in the Execution of Reform

China International Engineering Consultants Incorporated was established in 1982. Its major tasks then were to offer engineering consulting in using foreign funds, to help carry out technological transformation in the existing Chinese enterprises in accordance with an agreement reached between the Chinese and Japanese governments, and to take part in the planning work in open coastal cities and the special economic zones. That is why the company is named International Engineering Consultants Incorporated. This year the company has placed emphasis on undertaking feasibility studies of major construction projects, but its name remains unchanged.

Today, China International Engineering Consultants Incorporated has become a large engineering consultancy association with 43 branches and numerous cooperative units in key economic departments throughout the country. Meanwhile, the company employs a large number of experienced technical personnel and economic experts in the fields of hydropower stations, transportation, chemistry, textiles, light industry, machinery, electronics, aviation, and construction. In September this year the company set up [words

indistinct] leading group--a committee of experts--with many noted economists and learned people such as Li Renjun, Ma Hong, and Wei Yuming as their advisers.

Song Ping, chairman of the State Planning Commission, said: The examination of construction projects must be made by an impartial organization, and the order of an individual official should not be taken as a final decision. China International Engineering Consultants Incorporated is a company in essence, not a profit-making company, that bears full responsibility for the state.

Experts and staff of this non-profit-making company are well aware of their duties and are proud of their work of making policy decisions on major construction projects. Thanks to its galaxy of talent with different kinds of professional knowledge working in its 43 branches, China International Engineering Consultants Incorporated gives full play to its immense assets and potential. The company, which is directly under the State Planning Commission, keeps abreast of new developments in the national economy. These favorable conditions help the company occupy a leading position in offering consultant services for making policy decisions on our country's major construction projects.

At present China is working to establish a system of targets and parameters as an important norm for making technological and economic feasibility studies of construction projects. Thus our work of examining the feasibility of construction projects will be more scientific.

The remaining problem is a legal one, which will ensure the implementation of policy decisions made on construction projects through scientific examination.

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NATIONAL POLICY AND ISSUES

RENMIN RIBAO ON FINANCIAL THEORETICAL SEMINAR

HK240603 Beijing RENMIN RIBAO in Chinese 19 Sep 86 p 5

[Report by Chen Dehong [7115 1795 4767] and Hu Xuehao [5170 1331 1170]:
"Several Viewpoints at the Meeting To discuss Basic Financial Theories"]

[Text] The third national seminar on basic financial theory held by the China Society of Finance put forth some noticeable viewpoints concerning some theoretical issues in the current economic structural reform.

The economy under the whole people ownership system should continue to hold a dominant and leading position in the national economy, so it is not advisable to take the forming of joint-stock companies as the goal in reforming our socialist ownership.

Most comrades at the meeting held that in order to maintain the socialist form of production, it is necessary to ensure the dominant and leading position of the economy under the whole people ownership, and this is also in line with the requirements of the planned socialist commodity economy. It is not correct to attribute all errors and problems in our socialist construction to ownership by the whole people or state ownership and thus lose confidence in the socialist public ownership system. As for the joint-stock economy appearing in the course of reform, many comrades held that the joint-stock economy should be developed in a planned way as a method to raise funds and form economic combinations, but it should not be taken as the goal in our socialist ownership reform. Changing state-owned enterprises into joint-stock companies will not really solve the existing problems in these enterprises; instead, the results of distribution according to capital will just disintegrate our socialist public ownership system. The main way to carry out reform of our whole people ownership economy is to properly handle the relationship between the state and enterprises in the aspects of powers, responsibilities, and interests, to strengthen the economic responsibility system, and to improve the state's overall economic management and control.

The market mechanism cannot automatically guarantee the smooth operation of the economy as a whole and cannot ensure the rational distribution of resources and the forming of a reasonable economic structure.

Most comrades held that the market mechanism cannot automatically lead to the smooth operation of the economy as a whole and cannot ensure the rational

distribution of resources and the forming of a reasonable economic structure. The planned socialist commodity economy requires that markets be organized and managed in a planned and centralized way, so the state must not give up its management over markets, its organization of markets, and its interference in markets. The seminar also thoroughly discussed the development of the capital market and the reform of the prices of the production materials. Comrades at the meeting generally held that the capital market in our country should be different from those in the capitalist countries. State financial arrangements should be combined with banks, and both sides should play a positive role in developing and perfecting our capital market. The reform of the prices of production materials is an urgent issue that we must deal with at present, but we still have to carefully study the immediate targets and concrete steps for price reform in this regard and should give consideration to all relevant quarters' capacity of bearing the impact of the reform, the adaptability of our economic structure, and the imbalance between total supply and total demand in our country so as to prevent serious social and economic shocks. In addition, we should not overestimate the role of price reform and should promptly study and adopt corresponding reform measures in other fields.

Reform must be carried out under the premise of adhering to the socialist general orientation, and we must oppose the indiscriminate copying of the capitalist pattern and the exaggeration of the role of free competition and the market mechanism.

Comrades at the seminar pointed out that our reform must be in line with the socialist general orientation. It is necessary to have a correct understanding of the planned commodity economy and to oppose the indiscriminate copying of the capitalist economic pattern. The role of free competition and the market mechanism must not be exaggerated to an inappropriate degree. It is necessary to correctly understand the relation between reform and the economic environment. Reform is a means rather than a final objective. A good socioeconomic environment should be created by means of reform. Successful reform requires protracted and great efforts, and success will not be made in just one single move. We should fully understand and implement the Marxist principle of material interests in reform. Consideration should not only be given to the people's individual and immediate interests, but should also be given to their long-term and overall interests.

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NATIONAL POLICY AND ISSUES

COMMODITY ECONOMY DEVELOPMENT, ECONOMIC SYSTEM REFORM

Shanghai SHIJIE JINGJI DAOBAO in Chinese 14 Jul 86 pp 14-15

[Article by Liu Guoguang [0491 0948 0342]: "Development of the Commodity Economy and Reform of the Economic System"]

[Text] The planned commodity economy is an extremely important theoretical standpoint of the socialist economy. It was written into a document setting forth the decision of the 3d Plenum of the 12th CPC Central Committee to reform the economic system. That shows the close relationship between the development of the socialist commodity economy and the reform of the economic system. My purpose is to present my views on the relationship between the two as well as on certain problems that have cropped up during the transition of the old system to the new and of the noncommodity to the commodity economy.

I. Traditional Economic System Hampers Development of Commodity Economy

The commodity economy has not been developed the way it should since the establishment of the republic over 30 years ago because the traditional economic system is a highly centralized system of a planned economy that has no place for the market mechanism. This system is marked by the following features: (1) The increasingly unitary nature of the economic components and the ownership form; (2) the power of policy making is highly centralized in the hands of the government so that the enterprises must take orders from the higher authorities in their operations; (3) economic activities are mainly adjusted by direct administrative measures and the enterprises must engage in their operations in line with the directive input and output quotas handed down by administrative organizations; (4) insofar as the distribution of income is concerned, the egalitarian system prevails as the enterprises make it a practice to eat out of the same big pot of the state and the staff workers to eat out of the same big pot of the enterprises; (5) in the organizational structure, there is no demarcation of the responsibilities of the administrative units and the enterprises as vertical jurisdictional relations govern the operations of the departments, localities, enterprises..... (2) The market mechanism is placed under severe restrictions. Since the means of production are not considered commodities, the commodity market has been rendered extremely fragmentary. Deprived of such key productive elements as funds and labor, the market pays no heed to the function of the law of values, so that prices are extremely out of whack and the market plays virtually no part in

the coordination of the economy. (3) The direct management of productive operations by the state has not only made it necessary for state enterprises to engage in production and exchange operations according to the directive plan, but the overwhelming majority of the productive operations of the collective economic units in the cities and rural areas have also been brought into the monopoly purchasing and exclusive selling system so that the vertical and horizontal demarcations have cut off the horizontal economic relations inherent in the commodity economy.

Theoreticians differ as to the guiding thought behind the traditional economic system. Some comrades are of the view that it is based on the product economy, while others believe it is based on the natural economy. By the product economy is meant that, as Marx and Engels had occasion to predict, the commodity-money relationship would shed its economic pattern following the victory of the socialist revolution..... As was pointed out by Comrade Sun Yefang [1326 0396 2455], "to regard the socialist economy as similar to the material economy under the communist society" is merely to replace the essence of the primitive tribal economy with a unified and centralized planning organization for providing leadership in the economic activities of the entire society." ("Certain Theoretical Issues in the Socialist Economy," p 60) The two ideas are consistent in that they both refute the relationship between commodities and money and the issue of circulation. However, the original idea of the product economy theory is that it can only be applied when there is an abundance of products at some future date, so that it has elements of an idle dream at the present time. On the other hand, the natural economy theory, being the product of the long-term backward and sealed-off economy that prevailed in the past, is replete with feudalistic ideas. Insofar as our traditional economic system is concerned, while both the product economy and the natural economy theories have exerted their influence in the field of thought, that exerted by the natural economy theory has been of greater consequence. The actual circumstances of our nation are such that the natural economy has been in continual existence for several thousand years. Although the roaring guns of the Opium War ended the natural economy, the development of the commodity economy was so slow and the self-sufficient and semi-self-sufficient economy so deeply rooted that concepts of the natural economy have continued to wield their tenacious restraints on our economic activities. The economic system marked by vertical and horizontal demarcations has become a system of its own, a system that seeks to accomplish what is large and comprehensive as well as what is small but all-inclusive, that continues to follow the beaten path and to close the country to international intercourse, that has no conception of time and value, that avoids any talk of profit, and that stands in fear of competition. All these phenomena are indications of the influence exerted by the self-sufficient concept of the natural economy. Many units have come to resemble the manor house type of natural economy by becoming miniature societies that have taken on the business of attending to problems relating to births, aging, sickness, deaths, eating, drinking, the emptying of bowels, culture, education, politics, and the law.

The wartime communist supply system adopted in the isolated revolutionary bases during our revolutionary war had had its salutary effect under bitter combat conditions. The practice of "eating out of the same big pot" and of

"holding on to the iron rice bowl" prevailing in the financial and economic management system, while having the earmarks of a certain supply system, is also a reflection of the conditions that go with the natural economy. It is only to be expected that the dissemination and erroneous acceptance of the views of Marx and Engels regarding the direct management of the production and distribution of commodities by society at some future date and the view of Lenin that the entire economy in society should be managed like a big factory or syndicate should have given our traditional economic system dominating our concept of the natural economy in the past the semblance of the product economy. In any case, that the traditional economic system is affected by the product economy theory is mainly the result of book learning and the basic concept. That the traditional economic system is also affected by the natural economy theory is borne out by the facts of life. The traditional economic system, which does not recognize the commodity economy, is characterized by the "non-circulation theory." Many of the drawbacks of the traditional system of replacing the circulation of commodities with the distribution of products may be traced to this special feature.

During the 30-year period preceding the 3d Plenum of the 11th CPC Central Committee, certain changes have taken place in our economic system. However, the ideas of the natural economy which had emerged under the guise of the product economy have all along cast a shadow over various aspects of our economic operations. The natural economy, which rejects the division of labor, market conditions, and the idea of competition, makes it impossible to develop the commodity economy so that the socialist economy, which should be brimming with vitality, has become increasingly ossified and incapable of fully developing its advantageous position. There is therefore no way to develop the commodity economy unless the bonds imposed by the natural economy theory are broken and the economic system is reformed.

II. Reform of Economic System To Meet Demands of Planned Commodity Economy

Where we should direct our efforts in our reform is a question often asked in connection with the purpose and pattern of the reform of our economic system. Throughout the years, different people have espoused different ideas. Should our economic reform, for instance be brought about by introducing partial amendments and improvements, or should it be done by changing the entire pattern? Should it be carried out mainly in accordance with the directive plan or the guidance plan? Since the decision was made by the 3d Plenum of the 12th CPC Central Committee to reform the economic system, it has been unanimously agreed that the socialist economy should be the planned commodity economy and that the reform of the system should be carried out in that direction. However, there is still a considerable difference of opinion as to what is meant by the planned commodity economy, with some stressing the "commodity economy" aspect and others the "planned" aspect. In a recent article, for instance, a professor at Beijing University had occasion to point out that "the basic trend of thought behind economic reform is that the socialist economy must first of all be a commodity economy before the commodity economy can be developed according to a plan," thus putting the emphasis on the commodity economy. On the other hand, a professor at Renmin University emphasized in a recent article that "the planned economy or planned readjustments should from beginning to end

occupy a dominant position in the socialist economy" and that "so long as the socialist economy practices the public ownership system and the planned economy makes room for readjustments, the development of the role of the market mechanism will not in any way or form take on the features of capitalism." While emphasis is put on the planned economy, the point of emphasis varies and the purpose and pattern of reform also differ. Regarding the purpose and pattern of the planned economy, there are those who stress the indirect role played by the market in bringing about coordination while others stress the direct role which should be played by the government. Regarding the concept of the reform of the economic system in socialist countries, the international community also differs in its understanding. For instance, the reform being brought about in Hungary has now taken on the pattern marked chiefly by the indirect role played by the administration in bringing about coordination. Economists who favor this pattern believe that all the system needs is a greater degree of perfection, while others, such as Kolnar, are of the opinion that the present pattern marked by indirect administrative coordination must be changed into that marked by market coordination as a means of exercising macroeconomic control. This divergence of views is entirely natural and normal. It is only through the contention of 100 schools of thought that we can achieve a higher level of understanding. The relationship between the making of plans in the planned economy and the market in the commodity economy is such that it is impossible to bring about administrative coordination through planning or the totally laissez-faire market mechanism. For this reason, the crux of the discussion is how to find a more suitable common ground between the two extremes. This calls for a specific analysis based on specific circumstances. Generally speaking it is necessary for us to pave a road for developing the socialist commodity economy and to establish step by step a market coordination mechanism capable of exercising leadership in planning and macroeconomic control.

To bring about reforms to develop our socialist commodity economy and to remove obstacles that stand in the way of the system, we must enhance the vitality of the enterprises as producers and operators of commodities and create the external conditions and internal mechanisms necessary for the healthy development of the socialist commodity economy. In line with this trend of thought, the basic major points regarding the purpose and pattern of the reform of the system are as follows: (1) Since the old unitary structure of the ownership system is inimical to the development of the commodity economy, efforts should be directed toward the establishment of a new structure marked by the coexistence of various ownership systems based mainly on the economy of the public ownership system and the joint development of diversified operations. It is especially important to correct the situation under which no authority is given to the large and medium-size state enterprises so that they may truly become relatively independent socialist producers and consumers of commodities who are responsible for their profits and losses; (2) The relationship between the highly centralized decision-making structure and the paternal and patriarchal type of government on the one hand and the enterprises on the other hobbles the development of the commodity economy. Changes should be made to establish a system that would enable the state, the enterprises, and the families to make decisions at various levels and to perform their duties within the scope of their responsibilities. The state should

mainly concern itself with policy-making in the management of the macroeconomy while decisions in microeconomic activities should, insofar as possible, be left in the hands of the enterprises and individual families; (3) The directive type of planning of the past, which prevented the market mechanism from playing its proper role, should be reduced in scope while the scope of guidance planning and market adjustments should correspondingly be enlarged and actions smacking of direct control over the enterprises should be replaced by measures that make use of such economic levers as prices, tax revenues, and credit loans to adjust the activities of the enterprises, the market mechanism, and the effect of the law of values to coordinate economic operations under guidance planning; (4) The egalitarian method of distribution underlying the practice of "eating out of the same big pot" and the demands imposed by the development of the commodity economy are mutually exclusive in nature. Reform calls for the establishment of a new distribution relationship between the state and the enterprises and between the enterprises and the staff workers so that a link may be established between the distribution of income on the one hand and economic effectiveness and labor contribution on the other. The principle of more pay for more work should be implemented so that competition may be developed whereby excellence will be rewarded and inefficiency eliminated, and that a system may be established that would provide the motive force necessary to promote the benefits of increasing the rate of efficiency and technical progress; (5) The division of powers of an administrative nature which has resulted in vertical and horizontal divisions and mutual blockades poses a serious impediment to the development of the commodity economy. Although there are many difficulties in the simplification of administrative procedures and the delegation of powers, this objective in bringing about reforms must not be abandoned. In order to achieve this objective, it is necessary that we should reorganize and integrate the enterprises to meet the demands posed by the need to establish a unified market throughout the nation and develop lateral economic relations so that a vertical and lateral criss-crossing type of relationship may be established among the economic organizations. In short, in order to bring about the above-mentioned reforms, it is necessary to establish step by step, properly and organically, a new economic mechanism that can establish a link between planning and the market, the invigoration of the microeconomy, and the exercise of macroeconomic control and centralization and decentralization so as to ensure the continual establishment of a socialist production relationship based mainly on the public ownership system that serves to bring prosperity to all. By establishing a link in economic management among the enterprises, the market, and the state, this economic system will serve to promote the healthy development of the socialist commodity economy. With the increasing independence of the enterprises as commodity producers and users, the gradual establishment of a unified market system, the increasing perfection of the market mechanism, and the gradual transformation of the government's role of intervening directly in the production and operation activities of the enterprises in exercising macroeconomic control over the total amount of production, use can be made of the economic lever to adjust microeconomic activities. In short, with the establishment and perfection of a vital and vigorous economic system, great progress can be made in the development of the commodity economy and socialist modernization projects.

III. Double-track System Based on Coexistence of New and Old Systems

There are two ways to change the old system to the new. One is to bring about the wholesale transformation of the system and the other is to change the old system to the new through a gradual process. Which is the better method? That is a question that has been asked by economic theorists at home and abroad for a long time. It goes without saying that the wholesale method has the advantage of being able to bring about a whole set of changes, thus obviating the "confusion created by a profusion of traffic regulations." However, the circumstances of our nation are such that, instead of adopting the wholesale method to bring about a sudden change in the entire economic system, we have to adopt the method of gradual reform. That is because we have to give consideration to such special features of our nation as the size of the country and the population, the relatively backward state of our economy and culture, the extremely uneven rate of development, and the need to avoid excessively convulsive changes in the interests of the people in the process of reforming the economic system. The adoption of the method of gradual reform will unavoidably bring in its wake a transition period between the old and the new systems. During this transition period, while the new system has just come into being and the old system has yet to be discarded, the coexistence of the old system and the new and the simultaneous use and rejection of the market mechanism have caused confusion and befuddlement in the minds of the people.

The effect of the coexistence of the two systems has made itself felt in all aspects of the economic system during the transition period. Whether it be the enterprise mechanism, the market mechanism, or the state control mechanism, none can free itself from the difficult situation created by the coexistence of the two systems. Although the enterprises are given a certain amount of autonomy in their operations, they are still hamstrung by a variety of vertical and horizontal administrative fetters so that they have no alternative but to keep one eye on the market and another on the higher authorities. While the state has reduced its direct control over the economy, it has yet to exercise its indirect macroeconomic control in an effective manner. Thus, the state has no choice but to resort to administrative measures and to engage in market coordination at the same time. It is this situation that has engendered the dual nature of the activities of the enterprises and that of macroeconomic control exercised by the state.

With the coexistence of the two economic systems, what troubles the minds of the people is the difference between the allotted prices within the plan and negotiated prices outside the plan for the means of production. In actual practice, this phenomenon, created by the existence of the dual system, has also given rise to certain problems in various areas. The planned system has led to the system of dual control over the products inside and outside the plan. Even the same products produced by the same enterprises inside and outside the plan are given different treatment. Regarding the allocation of materials, some are allocated and distributed in a unified manner while others are sold in the market, so that a dual circulation system has been created that involves nonmarket as well as market channels; in the field of construction investments, some of the investment funds are allocated by the state requiring no repayment, while others are raised by the departments, the

localities, and the enterprises. Funds are also raised in the form of bank loans, while a start has been made in raising funds in the market. While the existence of various methods of raising funds has given rise to the dual vertical and horizontal investment system, the dual system for pricing the means of production is the most glaring anachronism of the dual economic system.

The existence of different prices for the same means of production within the plan is a special product of the method we have adopted to bring about reforms by gradual degrees. It goes without saying that when there is a shortage of supplies and readjustments are not made to the excessively low prices according to the plan, prices over and above those set by the plan will inevitably prevail. However, the legitimacy of the prices of the means of production in excess of those set by the plan and the approval given to prices according to the double-track system have come into being only in recent years. The basic idea behind the double-track price system is to remove by gradual degrees restrictions on certain products within the plan produced by state enterprises so that they may get into the market and to reduce the relatively high market prices by increasing the ratio of commodities outside the plan while increasing the prices of commodities inside the plan in order to readjust prices by gradual degrees, to bridge the gap between the two prices, and eventually to bring about a uniformity of prices. The advantages and disadvantages of adopting the double-track system for pricing the means of production are so obvious that economists have engaged in heated debate. Emphasis is placed by those comrades who consider it necessary at the present time to adopt the dual system of permitting different prices on the following advantages: (1) It is capable of stimulating production over and above the plan or outside the plan; (2) it enables the units not included in the plan to secure the means of production with greater ease; (3) high prices outside the plan serve to promote thrift and to reduce inefficiency; and (4) by readjusting the ratio between allotted and allocated products and those that are freely circulated in the market, the dual system can exercise control over the level of prices so that the planned allocation of the means of production may have the effect of readjusting the economy. Those comrades who oppose the adoption of the double-track pricing system, on the other hand, point to the following drawbacks: (1) It deals a blow to the state plan and jeopardizes the supply of materials to key construction projects of the state and key development departments; (2) it is liable to bring chaos to the circulation of commodities and to make it more difficult to exercise control over the market; (3) it damages the role of money as a commodity of equivalent value; (4) different prices for the same articles render the work of accounting more difficult, thus creating confusion in the management of the enterprises; and (5) different prices inside and outside the plan serve to promote the development of small enterprises and to sustain the scale and technical structure of technically backward and deteriorating enterprises. In addition, the excessive difference in prices inside and outside the plan provides an opportunity for exploitation by speculators and profiteers to the detriment of the social climate.

For these reasons, we must look at the positive side of the double-track system as well as the frictions and conflicts it has brought. Because of the eagerness to invest, the expansion of consumption, the loss of macroeconomic control, and excessive demands outside the plan, the gap between list and

market prices has been widened and prices that are unreasonably low and unreasonably high have been permitted to exist side by side so that contradictions have been intensified and the double-track system has been further vilified. As from this year, the overall demand has been kept under control so that the gap between list and market prices for many materials in short supply has been reduced and contradictions have been mitigated. At this early stage of the reform, when the vitality of the enterprises has just begun to be enhanced and the mechanism for self-readjustment and self-control has yet to reach a stage of maturity, overemphasis on the importance of achieving partial and short-term objectives is liable to bring about drawbacks of one kind or another depending on the specific conditions prevailing at the time. It is for this reason that we must make a serious effort to analyze the roots of the drawbacks and look at the positive side of the issue. Since we cannot change the old system to the new in one swoop, the adoption of the double-track system is an objective necessity. We cannot revert to the unitary old system just because of the existence of certain conflicts and contradictions. Because of the many problems that the double-track system has brought, some knowledgeable people consider it imperative to do away with it as soon as possible and to adopt the system of unified prices. At an international symposium on macroeconomic control held on board the "Bashan" on the Chang Jiang in September last year, many Chinese and foreign economists expressed the view that the double-track pricing system for the means of production is probably an outcome of our price reform program and that it should be replaced by the single-track system as soon as possible. In short, in view of the conflicts between the new system and the old and the various drawbacks brought on by such conflicts, the coexistence of the two systems over a long period of time is out of the question. For that reason, we must make positive efforts to create the necessary conditions to speed up the transition of the old system to the new and the transition of the noncommodity to the commodity economy.

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ECONOMIC DEVELOPMENT ZONES

BOHAI BAY ECONOMIC, TECHNICAL DEVELOPMENT ZONE DISCUSSED

Tianjin KEXUEXUE YU KEXUE JISHU GUANLI [SCIENCE OF SCIENCE AND MANAGEMENT OF S&T] in Chinese No 6, Jun 86 pp 15-16

[Article by Yang Haitian [2799 3189 3944]: "A Preliminary Study on the Establishment of Bohai Bay Economic Zone"]

[Text] 1. Bohai Bay is the largest bay of the continental sea, stretching from Dandong [0030 2639] to Qingdao, with a dozen coastal cities forming a uniform circular formation. This area has its own characteristics and superior points.

1. Geographic superiority--The Bohai Bay area is composed of Liaodong peninsula, Shandong peninsula, Beijing, Tianjin and Tanggu, with the Bohai Sea in front, reaching to the Pacific Ocean, and the vast hinterland of Northern China, Manchuria, Northwest and Central China behind. The five large seaports of Dalian, Qinhuangdao, Tianjin, Yantai and Qingdao have trade with more than 150 countries and districts in the world and contact with every place in the country, with a dozen main railway lines, 20 commercially used rivers, 50 airways and highway networks. This area is also the starting point of the two "inland bridges." The first is Dalian where commodities land and can be transferred through Manzhouli to join the Siberian Railway; the other is Tianjin where commodities land and can be transferred through Erenhot and Mongolia to join the Siberian Railway. We can say that the geographic superiority and convenience in communications and transportation in the Bohai Bay area are second to none.

2. Vitality in technology and educational strength. The Bohai Bay area is one of the areas with the highest S&T levels in the country; including Beijing, there are more than 100 regular colleges and universities, more than 200 technical secondary schools, 800 natural science research institutes and nearly 600,000 S&T personnel. In the place are gathered many important research institutes of the country, and many specialists and scholars who are well-known throughout the country and the world; in addition, it embraces a large troop of skilled old workers. This rich, intensive intellectual resource is second to none in the country.

3. Rich natural resources. The Bohai Bay area contains the four oil fields of Shenli, Huabie, Dagang and Liaohe, which embrace an offshore oil and gas

region of impressive reserves. It encloses several large coal mines such as Kailuan and Jingxi; and large iron mines such as Anshan and Jidong; it includes the salterns where more than half of the nation's salt is produced. Furthermore, the Shandong peninsula and Liaodong peninsula are also two famous agricultural areas. With such abundant natural resources, the Bohai Bay area can be called richly endowed by nature.

4. Vast space for further development. Along the 5,000 km coast line of Bohai Bay, there are saline and alkaline wastelands and beach accretions which provide favorable conditions for the expansion of productivity and construction of the economic and technical zone. Judging by the density of population in coastal cities such as Dandong, Dalian, Qinhuangdao, Yantai and Qingdao, the average is 1,700 per sq km, which is much lower than the rest of the other large coastal cities such as Shanghai (2,700 per sq km) or Guangzhou (2,300 per sq km).

11. The characteristics of Bohai Bay have determined the bay's importance in the economic and social development of our country, and they should have been used to best advantage. However, since the sixties, owing to the influence of factionalism, the original economic and social ties have been weakened and its superiority not fully utilized. For example, Tianjin, Dalian and Qingdao are superior in geographic location with high industrial technology standards, yet, for a long time, there were few arrangements about key items of construction in the three municipalities and there was a great gap in the supply of raw materials needed; each municipality had to resort to "large and complete", and according to national statistical classification, of the 164 different industries, there were 153 in Tianjin, 145 in Dalian and more than 100 in Qingdao. As a result, urban expansion became more and more serious a problem, there were many problems such as distribution of water, energy, and resources, construction of communications and transportation networks, and dealing with environmental pollution. Municipalities like Yingkou, Jinzhou, Tangshan, Qinhuangdao and Yantai embrace natural resources for tourism, with flourishing sea transportation, and they possess favorable conditions for the development of basic industry, tourism and ocean shipping. However, for a long time, due to the shortage of capital and technology, not only has this superiority not been fully developed, there still exist many problems in the distribution of industry in the municipalities and environmental protection, still less can we say they fully use their superiority. As the political, economic and cultural center of the country, Beijing should have played an important role in supporting the development of intellectual and technological resources; yet, owing to the one-sided emphasis on changing net-consumer municipalities into net-producing ones, the state poured huge investment into industry, which resulted in serious environmental pollution, and the intellectual superiority was not fully developed.

It is an important experience and teaching provided by history that the series of major local problems and contradictions in the Bohai Bay area can only be solved through comprehensive regional management. Since the Party's 3rd Plenum of the 11th CPC Central Committee, there has been restoration and progress in economic and technological coordination among the

municipalities in the Bohai Bay; yet in regional economic development Bohai Bay obviously falls behind the Yangzi River delta, Pearl River delta or southern Fujian triangle. Today, when economic development is fast in our country and the world, the municipalities in the Bohai Bay area, besides exploiting their superiorities, should coordinate to make up each other's deficiencies, to accelerate the realization of regional economic coordination, in order to accelerate the development of this area.

III. The demarcation of an economic zone and the establishment of its direction of development should meet the following objective requirements:

1. The extent of the economic zone and its direction of development must follow the overall plan of national economic development, to be an effective link of the organic part of the overall national strategy and of the chain of the whole economy.
2. Each member in the economic zone must give full play to its superiority, to create new economic results through coordination and division of labor.
3. Historical, cultural, social and economic links between different districts in the economic zone must be maintained and reinforced to form a closely coordinated system among the workers and peasants, urban and rural, different nationalities and geographic areas, to achieve obvious social interests.
4. The development of the economic zone must be favorable to environmental protection and ecological balance to create optimum ecological results.

Based on these points, this area, the Bohai Bay economic zone, through further reform and opening-up, should gradually be established. It should be an economic zone with its own characteristics, with the dozen large, medium and small coastal cities such as Dandong, Dalian, Yingkou, Panjin, Jinzhou, Tangshan, Qinhuangdao, Tianjin, Dongying, Yantai and Qingdao as the body; the three provinces and one municipality of Beijing, Liaoning, Hebei and Shandong as back; Manchuria, North China, Northwest and Central China as hinterland; the five economic and technological development districts of the five coastal cities as "windows" and the north part of China and the Asian Pacific region as the major stage of activities.

With the experience of the establishment of several other economic zones and combining the characteristics of this region, the following three points must be insisted upon in the establishment of the Bohai Bay economic zone: first, certain individual cities should not be used as the nucleus. Looking at the economic zones available in our country and the world, basically a certain large or medium city is used as the nucleus and other cities around it form a radial economic network. It is not so with the Bohai Bay economic zone; it is a colony composed of a dozen large, medium and small cities which form the nucleus of the economic zone, that is, the body of the Bohai Bay economic zone. Second, no clear demarcation lines are drawn. The provincial, municipal and city districts are administrative divisions in the scope of history and society. If the economic zone is drawn simply according to this administrative division, it is very unlikely to be scientific or

reasonable. The present distribution of productivity has formed through the years. Under the circumstances that the economic divisions are not the same as administrative divisions, if administrative measures are taken first to adjust the present overall distribution, the interests of individual districts are bound to be difficult to coordinate, thus hindering the construction of the whole economic zone.

In the construction of the Bohai Bay economic zone, the following ten aspects must be considered:

1. Joint formulation of the strategy of development of the economic zone.
2. Deep development of economic coordination in the zone.
3. Establishment of a joint port organization and a communications and transportation network in the zone.
4. The establishment of a tourist area.
5. The establishment of an information exchange network.
6. Coordination of policies within the development zone.
7. Coordination between human resources and technology development.
8. Development of financial coordination.
9. Establishment of a Bohai Bay "common market."
10. Promotion of farming and animal husbandry around the sea.

In addition, there are many other aspects to tackle with great effort, such as how to formulate a unified plan about the 5,000 km coastline to promote comprehensive utilization and development, how to utilize the rich agricultural resources of the region to establish the commercial, industrial and agricultural economic structure with the characteristics of the north, or how to acquire a reasonable distribution of labor in offshore oil exploration, refinement and processing to establish our largest petroleum and ocean chemical engineering base.

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ECONOMIC PLANNING

HAINAN DRAWS UP PLAN FOR CONSTRUCTION OF YANGPU PORT

HK240325 Guangzhou Guangdong Provincial Service in Mandarin 0300 GMT 24 Aug 86

[Excerpts] The comprehensive plan for development of Yangpu City, a strategic link in Hainan's economic development, has now been drawn up. Yangpu will be built into a modern open-style industrial port city, with the focus on the petrochemical industry. Its population will be 200,000 to 250,000.

From 16 to 18 August, the Hainan Regional Government convened a meeting to report on and assess development plans for Yangpu. The meeting decided to adopt the above scheme.

Yangpu, located in the northwest of Hainan, is a natural deep-water harbor. According to the development plan, the city's area will be not less than 50 square kilometers. The city will be divided into industrial, commercial, and cultural and education zones. The petrochemical industry will be the main industry. An oil refinery, synthetic ammonia plant, natural gas chemical plant, plate glass factory, and natural gas power plant will be built as backbone industrial enterprises.

Construction is planned to take 20 years and will be carried out in three stages. In the first stage of 5 years, an excellent investment environment will be created. In the second 5-year stage, the city will take initial shape. In the second third stage of 10 years, the comprehensive plan will be basically completed.

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AGGREGATE ECONOMIC DATA

GUANGDONG PROVINCE ECONOMIC GROWTH RATE SOARS

OW250143 Beijing XINHUA in English 1836 GMT 24 Sep 86

[Text] Guangzhou, 24 Sep (XINHUA)--China's economic reforms are paying big dividends in Guangdong Province as the provincial economy there has grown this year at an astounding rate of 14 percent annually.

A large part of the province has been opened for foreign investment and in the first eight months of this year its industrial growth rate soared to 9.7 percent. China has designated Guangdong Province, which borders Hong Kong, as one of its main priorities for economic development.

He Xian, director of the provincial planning commission, said here today the province's growth rate is four percent higher than the nation's average for this year.

"Guangdong also recorded a 46 percent rise in exports during the same period under the government policy that encourages exports," he told a meeting of the standing committee of the provincial people's congress that opened here today.

A considerable portion of the increase came from textiles, light industrial goods, foodstuffs, leather and fur products and arts and crafts, he added.

Three of China's four special economic zones, where foreign investors enjoy tax cuts and other preferential treatment, are located in Guangdong. The provincial capital of Guangzhou and Zhanjiang are among the 14 coastal cities which exercise greater authority over foreign investment and trade. And Guangdong's Pearl River delta and Hainan Island have also been opened to foreign investment.

The increases in output have been achieved despite a lack of cooperation from mother nature. He said that four typhoons hit Guangdong earlier this year, causing enormous losses. "But life and production in the disaster areas is now back to normal," he told the meeting.

Moreover, the central and provincial governments have earmarked 41 million yuan (about 11 million U.S. dollars) to help local people repair and reinforce water conservation facilities and river and sea dikes.

The provincial authorities attending the five-day meeting will consider a number of important agenda items. They'll draft new regulations for companies in Guangdong's special economic zones which have contracts with overseas firms. They'll also decide how best to further implement the province's compulsory nine year education program for all school aged children.

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ECONOMIC MANAGEMENT

ECONOMIC REFORMS IN LIAONING

Hong Kong WEN WEI PO in Chinese 15 Jul 86 p 12

[Article by Yang Dongyi [2799 2639 3300]: "A Silent Revolution"

[Text] At the invitation of Liaoning Province's External Cultural Exchange Association, reporters from 12 Hong Kong and Macao newspapers and news agencies recently visited the four cities of Shenyang, Yingkou, Dalian, and Dandong in a 10-day "whirlwind tour."

Liaoning is a heavy industrial base whose importance can be illustrated with these figures. Its industrial fixed assets exceed 50 billion yuan, the highest in China. It is the largest producer in the nation of iron and steel (one quarter of the national total), refined oil (one third of China's refining capacity,) sodium carbonate, cement, paper, and paper products. Its gross value of industrial output topped the nation in 1985, reaching 65.9 billion yuan, as did its output value of heavy industry, at 43.1 billion yuan. Of the 23 major categories of heavy industrial products for which national statistics are kept, Liaoning is the largest producer in 6 and the second largest in 3.

In view of Liaoning's importance, Premier Zhao Ziyang pointed out when he inspected the province in July 1984, "No other places can yet replace long-established industrial bases like Liaoning and Shanghai in terms of their position and functions in the national economy."

During their short visit, the reporters discovered that some enterprises in this traditional industrial base are indeed "obsolete." Of the more than 19,000 enterprises, many are in their 30's and 40's. Outdated equipment and antiquated technology are everywhere. This phenomenon is not unique to old industrial bases in China. The Ruhr industrial region in Germany and the traditional industrial base in the New England states in the U.S. also went through the same process and experienced a painful time transforming their old enterprises.

Such is the stage Liaoning is in now. Even during the Sixth 5-Year Plan, this province went all out to modernize old enterprises to revive their vitality. To accelerate this process, the State Council approved in early 1985 the designation of Shenyang and Dalian as cities with province-level economic

decision-making authority, giving them freedom of action to speed up the import of advanced technology and equipment from abroad to transform old enterprises. It is rare to have in one province two cities with province-level economic decision-making authority, which testifies to the importance the nation attaches to Liaoning. During the Seventh 5-Year Plan, the province has set aside as much as 18.7 billion yuan for the transformation of key large and medium-sized enterprises, up 34 percent over the Sixth 5-Year Plan, and exceeding the average national increase rate. Of the 18.7 billion yuan, central appropriations and capital raised by the province each make up half.

The transformation of old enterprises is a major reform facing Liaoning Province today.

Yet even more profound reforms are going on--silently. Their success or otherwise will not only affect Liaoning's future development, but in a certain way also hold the key to the take-off of China's national economy in the 1990's.

This "silent revolution," outwardly relaxed but intensive beneath the surface, covers many areas, including comprehensive structural reforms in large cities, financial reforms, the effective utilization of foreign capital by opened cities, decentralization of power to ports, and political reforms in medium-sized cities, etc. Essentially the reforms are aimed at sorting out the systems of power distribution and social distribution, breaking the strangle hold of rules and regulations, strengthening horizontal linkages, and accelerating the development of the national economy.

Of the four cities visited, Shenyang is a test site for comprehensive economic reforms and financial reforms, Yingkou is an opened city that uses foreign capital, Dalian serves as a laboratory in the decentralization of power to ports and in comprehensive reforms, while Dandong experiments with political reforms for medium-sized cities. Hence the visit provided the delegation of reporters with an opportunity to come into contact with the substance of reform.

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FINANCE AND BANKING

BANKRUPTCY LAW IN SHENYANG

Hong Kong WEN WEI PO in Chinese 16 Jul 86 p 12

[Article by Yang Dongyi [2799 2639 3300]: "Shenyang Implements Bankruptcy System to Promote Productivity"]

[Text] Shenyang is a major city in the northeast, with industrial fixed assets valued at 11 billion yuan gross, about one fifth of the entire province's total industrial fixed assets. Its machine industry is the third largest in the nation in terms of output value.

For years Chinese enterprises were exclusively preoccupied with the maximization of output value, ignoring costs and quality, let alone the marketability of their products. Thus the whole system is not geared to the demands of modern commerce. At a time when socialist commodity economic reforms are spreading across the nation, this irrational production structure must be dismantled. So in July 1984 Shenyang was selected by the State Council to be one of the test sites for comprehensive economic reforms in order to invigorate enterprises, stimulate major circulation channels, and establish an indirect management system.

As far as enterprise invigoration is concerned, Shenyang has carried out such trial reforms as the factory director responsibility system, individual or collective enterprise leasing system, enterprise stock ownership system, and bankruptcy system, with fairly good results so far. For example, the first batch of 30 enterprises to experiment with a factory director responsibility system boosted their output value and profits by 25 percent and 64.5 percent, respectively, in 1985, exceeding the municipality's average increase rates by a wide margin. As for the other reforms--individual or collective leasing system, stock ownership system, and bankruptcy system--they too have yielded notable results and will be tried out on a more extensive scale.

Of the above reforms, the enterprise bankruptcy law is particularly significant. All Chinese enterprises, whether state-owned or collectively owned, are state assets, so the question of bankruptcy does not arise. This means that enterprise leaders are not held accountable for mismanagement or recurrent losses. Mayor Wu Disheng [2976 6611 3932] pointed out, "The bankruptcy law aims at getting rid of this hopelessly rigid system and eliminating egalitarianism and the life tenure system." He said, "In the

past, in spite of provisions for closure, suspension, merger, and switching to another line of business, enterprises still got poorer and poorer."

Wu Disheng pointed out that there are dozens of mismanaged enterprises in Shenyang. To contain the impact, however, only three grossly mismanaged enterprises were selected for the experiment. A year ago the municipal government issued a warning to them, hoping that they would shape up and pull themselves back from the brink of disaster. But one enterprise turned out to be beyond rescue and was declared bankrupt on 3 August.

Wu Disheng noted that Shenyang's bankruptcy law resembles its capitalist counterpart in form, but differs from it in essence. This is because the idea of putting up the "red sign" is to urge enterprises to work themselves out of their mess through self-transformation and outside help. People outside can help these enterprises regain their vitality by providing them with information and paid services in accordance with the principle of equal value.

As for post-bankruptcy arrangements, Wu Disheng noted that workers' wages will not drop drastically all at once but will be reduced slowly each month. About 6 months after bankruptcy, a worker will draw only about 60 percent of his original salary. Meanwhile, departments concerned will give them opportunities to learn a skill so that they can find jobs soon. As for the cadres of a bankrupt enterprise, they cannot hold another leadership position within 3 years.

Concerning the bankrupt enterprise's liabilities, it is up to the creditors and judicial agencies to work out together the distribution of the proceeds from the sale of assets. According to Wu Disheng, preliminary analysis indicates that the creditors' interests will not suffer significantly.

Wu Disheng noted that they have learned a number of things about the bankruptcy law. First, as the bankruptcy system is a controversial issue, publicity must be stepped up to mitigate its social repercussions. Second, experiments in bankruptcy law show that it has been a powerful impetus to administrative simplification and power decentralization. In the past, too many hands meddled in the affairs of an enterprise, but nobody was held responsible for it. Now after an enterprise is warned, enterprise leaders naturally demand more autonomy. The outside meddlers, for their part, now seek to distance themselves from the enterprise so that they will not be blamed.

Why were collective enterprises chosen as testing grounds for the bankruptcy law? Wu Disheng explained that collective enterprises are smaller and have more freedom than state-owned ones. However, publicly-owned enterprises are next in line for the experiment.

Wu Disheng admitted that the results of the bankruptcy system are a far cry from what they envisioned at the beginning. He also said that further progress in this area will not occur until many problems are worked out, for instance, the legal person status of an enterprise and the formulation of related legislation. But the implementation of a bankruptcy system will further liberate social productive forces and promote the development of a commodity economy.

FINANCE AND BANKING

RECTIFICATION OF 'SMALL CASH BOX' PROBLEM DISCUSSED

Beijing CAIZHENG YANJIU [FISCAL SCIENCE] in Chinese No 7, 28 Jul 86 pp 9-12

[Article by Li Xiaobo [2621 2556 3134]: "A Discussion of Several Problems Relating to Cleaning Up and Rectifying the 'Small Cash Box'"]

[Text] I. What Is the Small Cash Box?

The "small cash box" refers to public funds that are appropriated for local use and are not entered into the ledgers according to regulations in order to be used indiscriminately elsewhere.

The "small cash box" refers to state funding not included under state budgetary management, but is not considered to be extrabudgetary capital. The term "extrabudgetary funds" refers to funds that are outside of the state budget but included in state planning and management that are withdrawn and utilized by all regions, departments, and units according to state regulations, whereas the "small cash box" refers to unauthorized funding appropriated by some departments and units in violation of state regulations which are kept off account books for use in indiscriminate expenditures. "Small cash box" funds are managed neither as part of the state budget nor as part of the extrabudgetary funding system.

Current characteristics of "small cash box" funds include its piecemeal, hidden, nature and the lack of management and control.

A fairly large part of the "small cash box" funding originates in fragmentary revenues that should have been incorporated into the state budget, such as "other revenues," "operational revenues," enterprise "sales revenues," "miscellaneous revenues," and so on, that have been shifted outside the budget. Some other such funds are amassed from the masses by using techniques such as levying arbitrary fees and charges, making indiscriminate claims, and levying arbitrary fines. In addition, there are also some funds that are legitimate in origin but have not been entered into the ledger according to regulations allowing them to be placed outside the budget for arbitrary expenditures.

As for "small cash box" funds caretaking, in most cases the unit's accountant is avoided and the leadership appoints someone to do nothing but take charge of such funds. At the same time, there are "small cash boxes" scattered

throughout the various departments and not a few sections, offices, and workshops of units. The reason these funds are referred to as a "small cash box" or "small treasury" is because they are not deposited in state banks and specialized banks representing the state, but are kept (in large sums) in boxes in unit offices. Some funds are also deposited in bank safes in the name of a collective or an individual.

Since most "small cash box" expenditures are illegal, activities relating to such funds are usually concealed and divorced from specialized and mass supervision. Management over these funds is quite disorganized and uncontrolled. Many current unhealthy tendencies have their origin in the "air raid shelters" they provide.

The main sources of "small cash box" funds are as follows:

(1) Intercepted procedure fees, sales commissions, public funds, interest, labor revenues, etc.; (2) the sale of old and discarded articles, packing materials, raw materials, and spare parts; (3) leftover specialized funds that should have been returned; (4) fraudulent claims for funding; (5) materials and retrieval of canceled losses due to bad debts; (6) operational revenue from the use of the state's vehicles, housing, and equipment; (7) price differentials from the commissioned purchase and sale of commodities; (8) consulting fees from firms that are not in the business of consulting and distribution fees from units that do not engage in distribution; (9) various unapproved fees, fines, and claims; (10) money and materials that are shifted to a collective enterprise without going through financial transferral procedures, and money and materials reallocated without compensation to collective enterprises; and (11) other revenues garnered by using state personnel, finances, and materials, and all stolen money not distributed and entered into the records according to regulations.

There are many categories of "small cash box" funds. I have listed the 11 types above to provide an overall understanding of the nature and content of this phenomenon.

II. Distinction Between "Small Cash Box" and "Small Public Chores"

The "small cash box" is illegal and cannot be used by any unit. "Small public chores" are permitted by the system and must be distinguished from the "small cash box" while that problem is being cleaned up.

The term "small public chores" had been used in the past, and was later replaced by "special institutional funds," "institutional funds," "enterprise funds," and "retained profits." It now appears necessary to restore the original term.

Before liberation in China, the revolutionary bases were isolated from each other and finances were tight and hard to manage. No unit could completely depend on the allocation of public funds to meet expenses. In order to ensure

victory in battle and to alleviate the people's burden, all party and government agencies, the army, the schools, enterprises, and institutions initiated their own production activities and began the "small public chores." This played an important role at the time in ensuring supplies to the revolutionary bases.

After national liberation, the state's financial situation took a rapid turn for the better and the focus of the state's work shifted toward economic construction. At the time, due to the fact that the "small public chores" and institutional production often diminished the energies of the leadership cadres, and in particular, due to the exposure in the "three antis movement" and the "five antis" struggle of some cadres who had become mired in the greedy search after personal gain and pleasure using institutional production, even to the extent of corruption and graft, and also to the Liu Qingshan and Zhang Zishan cases that rocked China and abroad which were related to the "small public chores," the Central People's Government Administration Council decided in 1952 to hand over institutional production completely to the enterprise sector, and the cash and materials accumulated over the years by each unit (that is, the "small public chores," including production revenues, remaining outlays, interest on savings accounts, etc.) were all handed over to the appropriate government financial agencies. The "small public chore" expenditures were resolved by the planned budgetary allocation of the financial departments. The entrance onto the stage of highly centralized revenues and expenditures was crucial to the concentration of financial resources, guaranteeing focal projects, the implementation of a basic turn for the better in the economic situation, and the rectification of organizational workstyle.

However, after more than a year of practice, everyone came to feel that there were quite a few problems in the total takeover of the units' "small public chores." In a year unpredictable events can always occur, and the budget for the early part of the year cannot estimate everything perfectly, so when problems happen, the budget was supplemented, which was time-consuming and bothersome. Also this method had a detrimental effect on units that organized miscellaneous revenues and on their enthusiasm for running things prudently and thriftily. Therefore, after studying the problem, it was decided at the 1953 national financial conference that local and unit extrabudgetary funding would be initiated beginning in 1954. This was further clarified in the Ministry of Finance's "Regulation on Certain Specific Problems Relating to the 1954 Draft Budget": "The miscellaneous revenues of administrative agencies and institutional units at all levels, including those stemming from the lease and sale of means of transportation and furniture, the resale of old, discarded items not belonging to the scope of fixed assets, and commissioned labor shall all be independently managed by each institution and unit for use in meeting appropriate expenses and shall not be incorporated into any government budget." These miscellaneous extrabudgetary revenues earned and spent by each unit were called "special institutional funds."

The setting up of "special institutional funds" was in fact the restoration of the "small public chores," but its scope had been reduced and its usage limited to the supplementation of some miscellaneous institutional expenditures. Along with the expansion of enterprise autonomy in the last few years,

the creation in some places of the "institutional funding" system was clearly a component of the extrabudgetary funding of administrative and institutional units. As for enterprise units, the "enterprise funding" system established in 1952 was later changed to "profit retention." This extrabudgetary funding of some enterprise units also replaced the "small public chores."

The "special institutional funds," "institutional funds," "enterprise funds," and "retained profits" are all reserve financial resources belonging to and managed by the individual unit as part of the extrabudgetary funding system, and can be referred to collectively as "small public chores." This term is relatively familiar and accurate, and its use can arouse a sense of responsibility and enthusiasm of units to do a good job of managing these funds.

Now that each unit has its "small public chores," why should the "small cash box" problem appear? There are two reasons for this. Subjectively, some units are plagued with departmentalism and always seek to take advantage of the state and squeeze as much as they can out of it. Some have used the opportunity afforded by the delegation of power and the economic-stimulation policy to indulge in this even more, especially under the influence of the "everything for money" thinking that is prevalent. In addition, from the perspective of financial management, some rules and regulations are inadequate while others cannot keep up with the changing times, which has led to the creation of many loopholes and gaps in the system and of more opportunities for engaging in "small cash box" activities.

After we have reviewed the historical evolution of the "small public chores" and have analyzed the reasons for the appearance of the "small cash box," we can distinguish between the two different types of extrabudgetary funding while cleaning up the "small cash box" problem, and may retain reserve financial resources that are legal and beneficial and eliminate the illegal, harmful squeezing of state funds.

III. "Small Cash Box" Is Not Small and Its Dangers Are Great

The "small cash box" is a form of illegal, hidden, unsupervised, uncontrolled funding which has a detrimental influence on financial accumulation, is harmful to state planning, and corrupts institutional workstyle and the ideology of the cadres.

First of all, as regards the macroeconomic control over the national economy, due to the numerous "small cash boxes" of some units and to the fact that they often are earmarked for capital construction projects outside the plan, in particular, to the building of residences and guest houses, the scope of capital construction has been expanded, creating one of the reasons for the lack of control over capital construction investment. In addition, a large part of the "small cash box" is used to issue bonuses and prizes and for the fraudulent purchase of high-quality consumer products under the state's control. This has led to the expansion of social consumption and is one of the reasons for the loss of control over consumption funds.

As regards enterprise management, some enterprises have, in order to set up a "small cash box," sold ... ? as discarded goods; some sell products at reduced prices to collectives under their jurisdiction; some enter into contracts with the outside at the expense of planned production goals; and some even establish their own "small cash box" by simply selling off products on the side. This is extremely harmful to the management of enterprise production and operations.

Second, as relates to the state's finances, the "small cash box" is one source behind the reduction of revenues, increases in expenditures, and the disruption of the financial system. The great majority of "small cash box" funds are taken from state financial revenues. Some come from the interception of sales and tax revenues, while others stem from the unauthorized expansion of retention norms of specialized funds. Some come from transforming enterprises within the budget to extrabudgetary enterprises and some from the shift of state funds to the collective. All this is harmful to the state's revenues. In financial expenditures, some units make fraudulent claims; some intercept all sorts of leftover specialized allocations; some marginal units fail to balance expenditures and revenues and, instead, set up separate books for revenues, turning them into a "small cash box; and some revenues from consulting, design, and labor services which should have been used to meet expenses are not used in this manner. All this expands financial expenditures. The "small cash box" makes a mockery of the state financial system and is destructive of financial discipline.

In addition, the harmful effect of the "small cash box" on ideological patterns cannot be underestimated. Since there are no accounting procedures, restrictions, or supervision involved in the "small cash box," which is controlled by only a few people, it is quite easy for problems to occur in relation to this money. Some units use it to give banquets and gifts, make useful contacts and friends, and go through the back door, which has led to a growth of unhealthy tendencies. Some use it to issue bonuses and prizes indiscriminately or divvy it up privately, which is in violation of the principle of each according to his labor. Other units transform the public good into personal benefit, and the resulting squandering, graft, and corruption have corrupted some cadres. Comrades say, "Many 'small cash boxes' make for great dangers," a comment which is right on the mark.

IV. How To Clean up and Rectify the "Small Cash Box"

This entails a great many things and is a job requiring a firm understanding of policy. We must rely on all levels of party and government leadership to mobilize all levels and raise people's consciousness. We must improve people's concepts of the state and of discipline, oppose cliquism and departmentalism, advocate building the country through hard work and thrift, and selflessly serve the state and oppose the waste of public funds and the transformation of public-sector funds and goods to private use.

This will also require much work in guidance. "Without blocking, there can be no flow" -- first of and foremost, loopholes must be plugged up. However, the purpose of "blocking" is to allow for "flowing"-- funds must be able to

circulate freely according to regulations. We must make the best use of funding to ensure the development of the national economy and the smooth implementation of the overall reform.

Specific measures involved in cleaning up and rectifying this problem are:

1. Make a careful distinction between state and collective funds and between budgeted and extrabudgetary funds. Funds that belong to the state must be managed as part of the state budget and extrabudgetary funds according to the budget management and financial systems and may not be removed from the books for anyone to use at will. Budgeted revenues must be handed over to the state treasury and cannot be transformed into extrabudgetary funds. Even less can state funds be shifted to the collective. Collective enterprises that belong to state-run units must make careful distinctions regarding personnel, finances, and materials and may not utilize without compensation and indiscriminately transfer money or materials. "Small cash boxes" presently in existence that belong to the category of revenue that is part of the budget and that should be incorporated into enterprise sales revenues and be handed in must be retrieved and handed in to the higher financial authorities according to regulations. The management of extrabudgetary funds must be strengthened by transfer through extrabudgetary channels. These funds would still belong to the unit for utilization according to regulations. State revenues that have been intercepted, shifted, and encroached upon by the making of fraudulent claims and by illegal means should all be handed in. From now on, no unit shall be allowed to create "small cash boxes" with state budget and extrabudgetary funds.

2. Open the front door while sealing off the back door. The emergence of the "small cash box" for a period recently happened because of the lack of a source of funding for certain absolutely necessary expenditures (such as receiving visitors, subsidies, etc.), which led to the need to devise means to earn a little money. Therefore, we must block off the back door and open up the front door. This means devising means of meeting expenses and a system of norms for necessary operations, operational activities, and business-related entertainment and social interaction, and of allowing each unit to cover this from their own capital (the "small public chores" funds). Any institutional or administrative unit with its own source of revenue could be allowed to retain some funds in order to arouse their enthusiasm for finding new sources of revenue. Institutional funds could be set up from these retained funds and ? (in other words, "small public chores" of administrative and institutional units), to be used to cover some necessary miscellaneous expenses.

3. Create a complete, necessary system of regulations. During the course of implementing the open-door and economic-stimulation policies, quite a few new economic activities have emerged in society, which has inevitably led to the question of how to distribute funds. There are a few regulations for enterprises regarding this problem, but nothing exists for the administrative and institutional units. In particular, some scientific research, design, and school departments bring in revenues of various types over which there is no management, a situation that easily creates unhealthy tendencies. In the long run, this is also detrimental to the development of such units. Therefore each financial department should cooperate with the various supervisory

departments to devise and promulgate appropriate laws and regulations so that these funds can be guided into the proper channels and the reoccurrence of the "small cash box" can be prevented. In devising this system of funding distribution, the needs of all parties involved must be considered, and the supervisory departments must respect the legitimate function and authority of financial departments over the distribution of the national income. The financial departments must be concerned with the development needs of the institutional units, pay attention to social benefits, and prevent the development of the simple financial point of view.

4. Rectify the opening of bank accounts. All the state funds of a given unit, including budgeted and extrabudgetary funds must be placed in a bank account opened by the unit's accounting department in a centralized fashion according to the regulations of the Ministry of Finance and the People's Bank regarding the opening of bank accounts and regulations concerning the management of cash. The creation of "small cash boxes," "small treasuries," or the depositing of public funds in the account of a private individual should be forbidden. The ? of some units that have opened bank accounts and are privately handling large sums of money and public funds should be forced to cease these activities. Rectification must be carried out by financial and bank departments acting in concert.

The cleaning up and rectification of the "small cash box" must proceed under the united guidance of the party and government and requires close coordination among the relevant departments. The financial departments are duty-bound to take on the major tasks involved, while the auditing departments of banks must work with them closely. The various supervisory departments must take energetic action to devise methods of capital and property management for use within its own system, and supervise and inspect units under its jurisdiction. With the concerted efforts of all parties, we can surely clean up and rectify the "small cash box" problem, improve management of funds, maximize the social advantages of funds, and make new contributions to the four modernizations and the overall economic reform.

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CSO: 4006/1307

FINANCE AND BANKING

SHENYANG PLANS STOCK EXCHANGE

Hong Kong WEN WEI PO in Chinese 17 Jul 86 p 12

[Article by Yang Dongyi [2799 2639 3300]: "Shenyang Plans a Stock Exchange"]

[Text] China's financial system has been plagued and hemmed in by myriad rules and regulations for years. Because the flow of investments, consisting entirely of appropriations allocated by the government, has always been vertical, horizontal financing arrangements are few and far between. The result is a pattern of vertical distribution of credit and funds running from the central bank through specialized banks to the latter's grassroots organizations. Specialized banks function merely as a "housekeeper" and fail to exercise their true social function.

As China's economic system was further reformed in recent years, its planned economy of the past is gradually being replaced by a market-oriented commodity economy of the socialist mode. Under these circumstances, productive forces are greatly liberated and social demand for capital has multiplied, something that the rigid financial system has failed to adapt to. To facilitate major changes in the financial system in the future, five large cities have been selected as the sites of an experiment to gather experience. As one of the test sites, it is Shenyang's mission to be the laboratory of financial reforms in the northeast.

The experiment began in July 1985. Director Zhang Di [1728 1029] of the Office of the Restructuring of the Economic System of Shenyang revealed that this piece of reform consists of several components. First, putting an end to past centralization in the financial management system. In addition to the four existing specialized banks, other local financial organizations have been set up, such as the Shenyang International Trust and Investment Corporation and the Shenyang Trust and Investment Corporation. Moreover, 106 rural credit unions and 17 urban credit unions have been founded. Cooperative funds have also been set up in the countryside on a trial basis.

Second, encouraging horizontal capital circulation. Accordingly, discount services on promissory notes have been launched with four cities and inter-bank borrowing has been initiated with international and regional financial organizations. Enterprises have also been actively supported in their drive to develop compensation trade with 12 provinces and municipalities.

At the same time, with the permission of the People's Bank of China, enterprises and individuals in the five cities where the experiment was carried out were allowed to invest in other enterprises. Their investment may take the form of stocks or bonds, among other things. Last year Shenyang approved 68 enterprises to issue various kinds of stocks and bonds either socially or within the enterprises themselves in order to absorb idle social funds to finance enterprise transformation. Zhang Di said that 150 million yuan were raised this way last year and 120 million yuan in the first half of 1986. This year's total is expected to reach 200 million yuan.

Third, developing a multitude of credit instruments to accelerate capital circulation. Accounts with individuals and individual industrial and commercial households can be settled with checks. There will be experiments in the issue of certified checks and traveler's checks, and bill clearing services.

Fourth, gradually commercializing financial institutions, which used to function bureaucratically, by allowing them to operate independently and assume responsibility for their own profits and losses.

Zhang Di said that Shenyang proposes to establish a stock and bond exchange in a couple of months. The establishment of a secondary market will also be considered at the appropriate time.

If the experiment in financial reform succeeds in Shenyang, Changzhou, Guangzhou, Chongqing, and Wuhan, it is bound to further the restructuring of China's political and economic systems. With finance acting as a lever, enterprises cannot but improve the way they are run. Should that come to pass, the factory director responsibility system will no longer serve any purpose and enterprise leaders will certainly demand full power to manage their affairs independently. This will spark off a demand for a clean break between government and enterprises, prompting corresponding changes in the political system. The interactions between these developments will help unshackle China's political and economic systems.

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INDUSTRY

DEVELOPMENT STRATEGY FOR NINGXIA METALLURGICAL INDUSTRY

Yinchuan NINGXIA RIBAO in Chinese 26 May 86 p 2

[Article by Hei Baili [7815 0130 3810]: "Close-Up Look at Ningxia Metallurgical Industry"]

[Text] Ningxia's metallurgical industry was born after the establishment of the autonomous region in 1938 and has grown rapidly since the mid-1960's when a host of metallurgical enterprises moved into the region from the interior. Today, Ningxia has 17 metallurgical enterprises flanking the energy base on both sides of Huanghe. The industry hires over 13,000 workers and almost 900 engineering and technical professionals. Among its leading products are steel, rolled steel, pig iron, metallurgical products, electrolytic aluminum, coke, carbon, and fire-resistant materials. With its output constituting 8.8 percent of the region's gross value of industrial output in 1985, the industry ranks among the most productive in the region.

As a raw material industry, the metallurgical industry plays a key role in regional economic development. Each year Ningxia produces far less iron and steel than it needs and has to depend on state allocations to offset part of the shortfall. In addition, it purchases some iron and steel from other places through cooperation. The region boasts a strong machinery processing capacity and the products of its major enterprises find a ready market at home and abroad. Owing to inadequate rolled steel supplies, however, these enterprises have to operate about 30 percent below capacity, and some local enterprises cannot even maintain normal production. In contrast, provinces, municipalities, and autonomous regions with a more plentiful supply of raw materials have developed more sophisticated metallurgical industries and are able to chalk up a faster rate of economic growth. Leading comrades in the central government have remarked that "every prefecture will come to life industrially if only it puts up a 100,000-ton steelworks." This certainly applies to Ningxia. Only when its metallurgical industry takes off can processing industries be assured of the availability of raw materials. And only then can economic development be sustainable. Judging from the strategy for national economic development in the Seventh 5-Year Plan and the 1990's, we should focus on building up central China as an energy and raw material base even as we accelerate development in the east. At the same time, there should be a vigorous drive to lay the groundwork for opening up the west.

As Ningxia is located where west China meets central China, building up its metallurgical industry is in line with the strategic plan above and has profound long-term significance.

Ningxia is well endowed to develop a metallurgical industry because of an abundance of energy and mineral resources strategically located. We have decided on the following strategy of economic development--aggressively pursue the local conversion and advanced processing of coal, build up the electric industry, and use it to develop industries that are heavy electricity consumers. This way we can bypass our weakness, namely, a limited ability to transport coal out of the region, exploit to the full our coal resources, and promote the development of industries heavily dependent on electricity, like metallurgy. Currently the region's total installed capacity of power generation stands at 600,000 kw, while the Dawukou Power Plant now under construction will have an installed capacity of 400,000 kw when it goes into full operation next year. Construction on the Daba Power Plant with an installed capacity of 2.4 million kw will begin in the Seventh 5-Year Plan.

Also in the works is a large-scale hydropower station on Huanghe at Heishanxia near the Gansu-Ningxia border, which will further boost the region's electric resources and enable it to expand the metallurgical industry, popularly known as the "electric tiger." Ningxia has other mineral resources essential to developing a metallurgical industry. It abounds in silicon and manganese ores; silicon ore deposits at the foot of Helanshan, with a high silicon dioxide content of 98 percent, amount to almost 200 million tons. Thus conditions are ideal for the development of ferrosilicon alloy and ferromanganese alloy. Iron ore deposits are more scattered and hence unsuited for extensive industrial exploitation. However, our mining policy--"exploit large deposits on a large scale and decontrol small mines"--has successfully mobilized the enthusiasm of the masses for mining, and the volume of regional iron ore output meets present production needs. Furthermore, the region has what it takes in terms of materials and technology to develop the metallurgical industry. Enterprises like the Qingtongxia Aluminum Plant, the Shizuishan Iron and Steelworks, and the Ningxia Smelter make up the backbone of the metallurgical industry in Ningxia; they have a good grip on technology, produce a full range of products, and have highly skilled workers. Some of their products have won outstanding quality awards from the Ministry of Metallurgical Industry and the autonomous region, and their research projects have also received state recognition. They are a vital force in developing Ningxia's metallurgical industry.

On the basis of all-round, balanced economic development region-wide, we have set this goal for the metallurgical industry during the Seventh 5-Year Plan: quadruple output value. The first 3 years will be devoted to laying the groundwork--tapping the potential of existing enterprises, particularly the leading enterprises, modernizing and expanding them, and rounding out their physical facilities; improving product quality; and diversifying products. The last 2 years will be spent on new projects to be undertaken when our resources permit. Our main tasks during the Seventh 5-Year Plan include the following:

-- use Shizuishan Iron and Steelworks as a base and develop joint iron and steel enterprises. Production by the two 5-ton electric furnaces should be

resumed so that regional steel-smelting capacity will reach 50,000 tons annually. Add imports from other provinces and billets allocated by the state, and we can expect to produce more than 130,000 tons of rolled steel each year. Apart from reviving the 100-cubic meter blast furnace, we plan to modernize another 100-cubic meter furnace to produce more than 100,000 tons of pig iron annually. As for the manufacturing of metal products, we should have a dual focus. First, we should expand the output of sealed wire ropes, a flagship product. Second, we must begin making tire wire to complement the locally produced meridian tire. Not only can they be marketed locally, but they can also be exported to earn foreign exchange.

-- Develop the production of ferroalloy by expanding the two small ferroalloy plants and building the Ningxia Alloy Plant with an annual output of 50,000 tons. We aim to produce 80,000 tons annually.

-- complete Phase 1 of the expansion of Qingtongxia Aluminum Plant, increasing its annual output to 50,000 tons, and proceed on to Phase 2. Target: an annual output of 130,000 tons by 1990. At the same time, aluminum production should be developed.

-- The Ningxia Smeltery will use the tantalum powder and niobium produced by itself to make two electronic products, tantalum electrolytic condenser in conjunction with other enterprises in the region.

-- develop coke and charcoal products. The Xibei Coke Plant, with a projected annual capacity of 430,000 tons of coke, will be built jointly with sister provinces. Byproducts like coal tar will be processed as part of an effort to develop a coal chemical industry. The Shizuishan Coke Plant will be modernized to produce 30,000 tons of electrode each year. All these products can serve as raw materials for the region's metallurgical industry.

-- Beginning this year, there will be a systematic effort to mine gold and develop gold production.

The development of the metallurgical industry must base itself on technological progress. The key to achieving the above plans and goals lies with technological transformation, the adoption of advanced technology, strengthening of management, lowering of consumption, and effective comprehensive utilization, essentially that of gangue and aluminum oxide in fine coal ash. Although Ningxia has its strengths when it comes to the development of a metallurgical industry, it also has its share of disadvantages, such as fund shortages, technological weaknesses, a backward infrastructure, and scarce metal resources. The way out is to cooperate economically each and every way with other units, which will enable it to sidestep its weaknesses and exploit its advantages. Economic and technical cooperation is particularly imperative for enterprises in energy and raw materials industries with their long construction period, massive outlays, and stringent technical requirements. The conflict we have encountered in the course of economic development between what we need and what is possible has brought home to us at an early stage the significance of horizontal economic cooperation. Over the past few years, the regional party committee and people's government have given priority to the development of such cooperation and on its own initiative actively established and consolidated economic and technical cooperative relations with the northwest and sister provinces, municipalities, and autonomous regions in the northeast and central China. And the metallurgical industry figures prominently in the cooperative projects

agreed upon. The 100-cubic meter iron-smelting blast furnace at Ningxia Iron and Steelworks, on which production resumed this year, and the two 34-cubic meter blast furnaces at Zhongwei, for instance, are exactly the fruit of cooperation with Zhejiang. The newly-built Xibei Coke Plant and the expansion of Qingtongxia Aluminum Plant and Shizuishan Carbon Plant are all cooperative projects with sister provinces, municipalities or the China National Nonferrous Metals Industrial Corporation under the Ministry of Metallurgical Industry. The Jiuquan Steelworks and Baotou Steelworks have been highly supportive of us by furnishing us with billets each year. Experience has convinced us of the immense vitality of horizontal economic cooperation. It spurs resource development, promotes the optimal use of capital and the reasonable exchange of technology and skilled personnel, encourages the rationalization of the economic structure and geographical distribution, and leads to a general improvement in economic well-being. In the future, we will work to broaden and deepen horizontal economic cooperation in accordance with the principles of "exploiting strengths, sidestepping weaknesses, diversification, mutual benefit, and joint development." Even as we promote regional cooperation, we must also take pains to develop horizontal cooperation between enterprises. Alternatively, we may pursue specialized cooperation both in and outside Ningxia, focusing on famous brand-name products, or pool our resources, such as capital, raw materials, physical plant, equipment, technology, and labor force. The encouraging thing is that the government will give a definite measure of special tax relief to enterprises and units which invest in energy and transportation industries and in "old liberated areas, minority areas, frontier areas and impoverished areas" to expedite economic development in those backward areas. This will benefit the development of horizontal economic cooperation by the metallurgical industry in Ningxia.

Domestic economic and technological cooperation should go hand in hand with a push for international economic and technological cooperation to make foreign capital and technology available to the region's metallurgical industry.

The newly built Ningxia Ferroalloy Plant was put together by the Ministry of Foreign Economic Relations and Trade, financed by foreign loans and equipped with imported machinery. In short, both forms of cooperation, domestic and international, have breathed new life into the industry.

It is the tradition of the vast numbers of workers in Ningxia's metallurgical industry to work arduously. Most metallurgical plants in the region are situated a long distance from cities in remote areas. For years the workers have overcome difficulties and worked long and hard, contributing to the development of the industry and the prosperity of the localities where the plants are located. In the process a crop of outstanding scientific and technical personnel has emerged, model workers who have been praised by the public. If the industry is to continue growing, its army of workers must make the most of their intelligence and expertise and keep up their spirit of struggle amid trying circumstances.

As reform and the open door policy become more thoroughgoing, we can expect the new vital force--Ningxia's metallurgical industry--to gradually come into its own during the Seventh 5-Year Plan and toward the end of the century, and contribute even more to the development of the great northwest and the rise of Ningxia.

INDUSTRY

MODERNIZATION IN THE AUTOMOBILE INDUSTRY

Hong Kong WEN WEI PO in Chinese 25 Jun 86 p 20

[Text] China's automobile industry has developed on its own over 20 basic new vehicles and modified vehicles and 200 special vehicles. At present it is capable of producing over 50 models of basic vehicles in the five major categories of trucks, cross-country vehicles, dump trucks, tractors, buses, and sedans, and more than 300 remodelled special vehicles in 10 major categories, including vehicles for use in commerce, environmental protection, medicine and public health, agriculture, sideline production, fishery, forestry, and airport services.

Among new Chinese-made vehicles, there are such star performers as the "Jiefang" CA 141, a 5-ton truck made by the No 1 Auto Plant; "Huanghe" JN 162, a 10-ton truck from the Jinan Auto Plant; and the "Leap Forward" NJ 131, a 3-ton truck manufactured by the Nanjing Auto Plant. All of them have been appraised by the government and will be put on the market successively this year and next, suggesting that "Jiefang," "Huanghe," and "Leap Forward," the three oldest, most popular and most widely used Chinese-made vehicles, have been totally modernized and with it the stagnation in the automobile industry over the past few decades will recede into history.

These new products have the following special features. First, they cover a full range of models. Among them are basic trucks, large and medium-sized buses, and various remodelled special vehicles, thus rounding out the composition of Chinese vehicles, which used to lack heavy-duty and light models. Second, marked improvements have been made in an array of technical and economic indicators and performance of the new generation of vehicles. Gasoline consumption per 100 ton kilometer has dropped substantially, while speed and weight utilization coefficient have gone up. The "Jiefang" CA 141, for instance, uses 26 percent less gasoline per 100 ton-kilometer than its older version and its average speed has increased 20 to 30 percent on the average. The new models are also far superior to their older counterparts in exterior, visibility, comfort, control, and handling. Third, these new vehicles stand out because of the breakthrough in the way they are built and designed. Large buses made in Wuhan and Wuxi are relatively modern rear-engine vehicles. The design of the newly-built and appraised line of basic trucks has taken into consideration such factors as product diversification,

popularization and standardization so that in future they may be the prototypes of a family of vehicles with different tonnages and wheelbases and offer a choice between diesel engine and gasoline engine. They can also be the prototypes for various types of special vehicles.

The automobile industry in recent years has introduced a range of automobile technologies of the late 1970's and early 80's. Such imports have done much to expedite the modernization of the industry and technological improvement. Technologies on the construction of five complete lines of cars have been imported, including subcompacts from Isuzu, Fiat, and Renault. Other imports are American jeeps, small sedans from West Germany, and special mining vehicles. In addition, the nation has imported various kinds of assembly and spare-part technologies.

Through self-reliance, research and the import of various new car models and parts, China's automobile industry is headed for a surge of modernization in the next 2 years.

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INDUSTRY

THREE CHANGES URGED IN INDUSTRIAL DEVELOPMENT STRATEGY

Beijing JINGJI RIBAO in Chinese 30 Jun 86 p 2

[Article by Zheng Xiaonong [4453 2556 6593]: "China Must Make Three Changes in Industrial Development in Seventh 5-Year Plan"]

[Text] As we enter the first spring under the Seventh 5-Year Plan, we can learn many important lessons by reviewing the Sixth 5-Year Plan, analyzing the stages of economic development together with their different characteristics and associated environmental changes, and looking ahead to the Seventh 5-Year Plan. This exercise will help us get a deeper understanding of the basic missions and development principles of the Seventh 5-Year Plan and steer us to the path of self-sustaining industrial development that emphasizes efficiency and production.

During the Sixth 5-Year Plan, China initiated a dual change--in its economic system model and economic development model. At the beginning of the dual change, industrial development displayed three characteristics. First, a notable increase in the scale and strength of the economy. There are two indicators of the overall industrial strength of a nation (region): gross output value and general technological level. Judging from last year's industrial added value (that is, net output value plus depreciation), the scale of our industry now ranks among the top five in the world, exceeded only by the US, Soviet Union, Japan and West Germany. Industrial production in every sector across the nation has been expanding rapidly, accompanied by a new trend toward the simultaneous development of rural and urban areas following the rural resurgence. However, the improvement in the overall technological standard has failed to match the growth in industrial scale. Second, a balance has been achieved between light and heavy industry. In the past, industrial expansion was mainly fueled by the demand for investments. During the Sixth 5-Year Plan, growth was stimulated by the demand for consumer goods as well as that for investments. By increasing the supplies of agricultural raw materials, reorienting heavy industry, importing raw materials, and boosting investments in light industry, the government has taken the first steps toward bringing heavy industry and light industry in line with each other. But given a still imperfect market system and distorted price system, the disparity between supply and demand in the product mix remains enormous and the revamping of the industrial structure is still a daunting task. Third, economic efficiency has gone up. As efforts were made

to adjust the balance between light and heavy industry in the Sixth 5-Year Plan, enterprises increased the production of high-priced, profitable and popular products. As a result, profit taxes rose significantly, while both labor productivity and energy conservation rates climbed as much as 5 percent annually on the average. These three characteristics were consistent with the economic environment during the Sixth 5-Year Plan.

The economic environment of industrial development is in for extensive changes during the Seventh 5-Year Plan. To begin with, the state will make a mighty effort to bring about a basic equilibrium between total demand and total supply. After macroeconomic control was intensified in 1985, the demand explosion has been checked, the demand structure has been changing, and the market has shown the first signs of becoming partly a buyer's market, a process which is gathering momentum. Enterprises must take actions to adapt to the market environment. Secondly, we will systematically and gradually put an end to the underpricing of such means of production as energy and raw materials during the Seventh 5-Year Plan. As far as enterprises are concerned, this will mean more expensive inputs at a time when their ability to raise the prices of their products will be limited to a definite extent by the existence of a buyer's market. As a result, enterprises must adopt a variety of measures to enhance their capacity to absorb the rising costs of inputs and cannot merely pass them on to consumers. Third, Premier Zhao Ziyang points out in his report on the Seventh 5-Year Plan that by the end of the plan, the bulk of enterprises must be accountable for their own balance sheets and the days of "eating out of the state's common rice pot" will be a thing of the past. Changes in the economic environment require industrial development to enter a new stage; accordingly, we must make three changes. As far as industrial structure is concerned, there should be a redirection of focus, from adjusting the balance between light and heavy industry to systematic reform, including the revamping of the industrial structure and the improvement of the variety and quality of products. Turning to the scale of industry, we should concentrate more on technological advancement and less on quantitative growth. Old industrial bases along the coast must be technologically modernized. The applies to both the bases and the enterprises in them. Township and town enterprises too must raise their technological level through all manner of cooperation. As for economic efficiency, we should graduate from the superficial measures of efficiency to the more sophisticated ones. Instead of devoting ourselves exclusively to turning out more high-priced, profitable, and popular products, we must try to do better in terms of improving quality and cutting back on consumption. At the heart of these three changes is an improvement in macroeconomic and microeconomic benefits. To bring about these changes is a choice we must make in order to adapt ourselves to the objective economic environment of the Seventh 5-Year Plan, the only course open to industrial development. Only thus can we ease the deepening incompatibility between supply structure and demand structure, promote rapid industrial growth through reform, and pave the way for industrial modernization.

Specifically, the three changes may be achieved in the following ways, among others. First, combine the qualitative adjustment of fixed assets with their logical distribution. Besides stepping up investments in weak industries to boost their productive capacity, we should transfer some of the equipment and

technology of the traditional industries in old industrial bases through strengthened horizontal cooperation, overhaul the structure of old bases, promote enterprise integration, expedite the reorganization and merging of existing enterprises, and achieve structural changes. Second, we must encourage the transfer and dissemination of applicable technology, expand technology import, and accelerate the technological progress of enterprises. Administrative barriers separating departments and localities must be further dismantled. The technological market must be developed. Technical services and the transfer of technology in return for royalties must be broadened. A multitude of unions combining scientific research with production must be set up. When they go in for technological modernization, enterprises should emphasize lowering raw material and energy consumption and increasing labor productivity. These efforts should be accompanied by others to raise management standards so that limited material resources can turn out maximum social output. Third, enterprises should take a new sophisticated approach to product development. They should continue to increase the output of popular products and do their best to improve design, packaging, variety, and specifications. But apart from these obvious and simple efforts, they should also take a more sophisticated tack to product development--improving quality, cutting costs, and upgrading performance, thereby fundamentally enhancing their products' domestic and international competitiveness. Only reform can remove the series of hurdles in the path of the three changes, which, in turn, will create a more hospitable environment for restructuring the economic system.

12581

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INDUSTRY

LATENT CRISIS LOOMS OVER INDUSTRIAL ENTERPRISES

Beijing LIAOWANG [OUTLOOK] in Chinese No 27, 7 Jul 86 p 21

[Article by Zhang Gaopeng [1728 7559 7720] and Yao Wenbin [1202 2429 1755]:
"Shortage of Skilled Workers Poses Latent Threat to Industrial Enterprises"]

[Text] The high-precision, all-purpose cylindrical grinders turned out by Machine Tool Plant No 3 in Shanghai have enjoyed brisk sales at home and abroad. They have also made their appearance in the U.S. market. However, they have so far been produced in limited quantities. Why? It is because of the shortage of skilled large-taper-bearing grinders.

Although Machine Tool Plant No 3 in Shanghai had completed its planning for the trial production of butterfly-shaped grinding wheel gears a long time ago, trial production had to be put off for a year. Why? The shortage of skilled workers.

Although the Ma Ge grinding machine imported by the Steam Turbine Plant in Shanghai in the 1960's has been in use for 20 years, nobody at the plant dares to take it apart for overhauling. When the precision gear-bobbing machine imported by the Pengpu Machine Plant from the FRG developed trouble, foreigners had to be hired to make repairs. Needless to say, that was also because of the shortage of skilled workers.

Latent Crisis

The shortage of skilled workers has become an obstacle to the development of production and the achievement of scientific and technical progress in some of the industrial units in Shanghai and even in the entire nation.

According to an investigation conducted by the Enterprise Management Department of the Shanghai Machine and Electrical Industries Bureau of 116 key enterprises, there were at the end of last year 7,106 seventh- and eighth-grade technical workers (calculated according to their wages, including that for subgrade 7), or only 5.7 percent of the total. Their situation may basically be summarized as being high, low, and few. By high is meant their high age bracket, averaging 54 years with a considerable number approaching the retirement age; by low is meant their low cultural level with less than 20

percent having attained the special, or technical secondary, school standard; and by few is meant the small number of workers in the forefront of production with only 35 percent being engaged in frontline operations or in providing technical leadership. The effect which the high, low, and few situation has on production development and technical progress may be summed up as follows: First is the adverse effect on product quality; with no senior technicians to check on key working procedures, there is no assurance of technical soundness and no control over the quality of the products. Second is the effect on the trial production of new products; there are factories which have produced designs for, but are incapable of producing, new products. Third is the inability to maintain and to repair precision and advanced equipment. Although a number of factories in the mechanical and electrical system in Shanghai have retained a number of advanced workers among their contingent of machine repairers, their actual standards and limitations are such that they are incapable of dealing with new techniques and certain pieces of new equipment such as hydraulic-pressure, numerical-control, and minute mechanisms.

Where Problem Lies

Many factors contribute to the high, low, and few situation prevailing among skilled workers.

First, those in leadership positions in the enterprises lack an overall understanding of the essential factors relating to productive capability. At the mention of developing people of talent, they immediately think of increasing the number of technical workers and the knowledge of management personnel without regarding outstanding technicians as people of talent, let alone spending money for their training. By the end of last year, the hundreds of factories under the Shanghai Machine and Electrical Industries Bureau conducted a total of only 5 training classes for a total of only 142 senior technicians. During all these years, many leaders in the enterprises have emphasized the efficacy of modern equipment in the mistaken belief that, with the increase in the automation of technical equipment, the demand for technical operators would be correspondingly reduced. Instead of providing training for high-grade technicians, they would direct their efforts toward the importation of advanced equipment.

Second, the system for increasing the wages of workers is inequitable. So long as they refrain from making grievous errors, all workers have an equal opportunity to be promoted. That is why workers have shown no great desire to study and learn. Some senior technicians would prefer to serve as warehouse keepers and guards rather than work regular shifts as leaders of apprentices in the front line of production.

Third, the excessively elaborate division of labor is inimical to the development of advanced technicians.

During the 1950's and 1960's, the division of production work was less elaborate; thus workers had more opportunities to acquaint themselves with other types of work. Those in leadership positions also favored versatile workers

who were experts in one field and good in many others. Now, the technical equipment of most of the enterprises is more advanced and the types of work more elaborately divided. Although that in a way represents progress, the fact that some workers are being assigned to permanent posts the moment they are employed by the factory also means that they are being confined to a small enclosure, thus making it difficult to upgrade the technical standard.

Suggested Measures

It is necessary to adopt feasible measures to establish within the shortest time a contingent of advanced technical workers.

-First, it is necessary to heighten the awareness of leadership cadres at various levels of the importance and urgency of establishing a contingent of advanced technicians who are in the prime of life. With the development of the four modernizations projects of construction, and in order to meet the demands for "introducing from abroad and cooperating with the units in the interior," the demand for advanced technicians to achieve scientific and technical progress and to increase the production of export products will continue to increase rather than decrease. That calls for a better quality of labor and a greater number of advanced technical workers possessed of modern knowledge and skills who are capable of checking up on product quality and developing new products. These advanced technicians, being important and talented workers in production operations, must be taken into consideration in the talent development program which the responsible persons in the enterprises must seek to implement during their term of office.

-It is necessary to create the necessary conditions for the development of advanced technical workers.

It is necessary to encourage the organization of special training classes for technicians who are experts in one field and good in many others. The rotation system for engaging in different types of work on a trial basis has been proposed by some comrades on the grounds that it would develop all-rounders and offer promotion opportunities to advanced technical workers. When importing techniques and purchasing equipment from abroad, the enterprises should select outstanding technicians for a period of training in foreign countries. Workers should also be assigned for a period of time to learn from advanced technical workers with unique skills so that they may acquire such skills.

-A policy of offering more pay should be adopted as an incentive to advanced technical workers. An evaluation system for senior technical workers should be established so that those who have achieved a certain grade may be paid commensurate wages. The less than equitable eight-grade system established 20 years ago should be amended. The establishment of such technical job categories as technician and technologist would encourage junior and middle-level technical workers to aspire for senior technician positions.

-It is necessary to direct serious efforts to achieve coordination in propaganda work. Publicity should be given to the achievements and contributions of senior technicians with ample experience in their operations and those of skilled craftsmen.

INDUSTRY

EXPORT OF LIGHT INDUSTRY PRODUCTS SHOWS SIZABLE INCREASE

Beijing ZHONGGUO QINGGONGYE BAO in Chinese 31 Jul 86 p 1

[Article by [?] Chuban [.. ? 0443 0584]: "Export of Light Industry Products Shows Sizable Increase During the First Half of 1986"]

[Text] The export value of our light industry products that have been delivered came to 8.07 billion yuan during the first half of the year, showing an increase of 57 percent compared to the same period last year. Among those provinces and cities registering the highest rate of increase are the No 1 Light Industry Bureau of Yunnan Province with 408 percent, the No 1 Light Industry Bureau of Shenyang with 353 percent, the No 1 Light Industry Bureau of Wuhan with 252 percent, and the No 1 Light Industry Bureau of Harbin with 242 percent. Among those showing increases of over 100 percent are the No 1 Light Industry Bureau of Heilongjiang, the No 1 Light Industry Bureau of Hunan, the No 2 Light Industry Bureau of Hubei, the No 1 Light Industry Bureau of the Guangxi Zhuang Autonomous Region, the No 2 Light Industry Bureau of Wuhan, the No 1 Light Industry Bureau of Liaoning, and the No 2 Light Industry Bureau of the Ningxia Hui Autonomous Region. Among those which have registered increases of over 30 percent are 43 No 1 and No 2 light industry bureaus and head companies in the provinces and cities, comprising 57.3 percent of all the units covered by the statistics. Among those units are the No 2 Light Industry Bureau of Guangdong with an increase of 81.9 percent, the No 2 Light Industry Bureau of Zhejiang with an increase of 73 percent, the No 1 Light Industry Bureau of Beijing with an increase of 59 percent, the No 1 Light Industry Bureau of Tianjin with an increase of 57 percent, the No 2 Light Industry Bureau of Fujian with an increase of 54 percent, the No 2 Light Industry Bureau of Hebei with an increase of 41 percent, the No 2 Light Industry Bureau of Shandong with an increase of 39 percent, the No 2 Light Industry Bureau of Beijing with an increase of 39 percent, the No 1 Light Industry Bureau of Guangdong with an increase of 38 percent, and the No 1 Light Industry Bureau of Shanghai with an increase of 37 percent. Only three bureaus have shown a decrease compared to the same period last year.

Among the categories of export products which have shown sizable increases compared to the same period last year are watches with an increase of 573 percent, drawnwork and embroidery with an increase of 146 percent, bicycles with an increase of 62 percent, and sewing machines with an increase of 35 percent. Both drawnwork and embroidery, following a 4-year slide, and fur coats, which suffered a 2-year slump, have rebounded. Considerable increases have also been registered by dresses, metal implements, thermos bottles, light bulbs, soap, and batteries compared to the same period last year.

With the increase in the export of light industry products during the first half of the year, the export of light industry machinery and electrical products also showed a considerable increase. For instance, while 600,000 watches were expected to be exported by Shanghai according to the quota for the year, 1.7 million were delivered during the first half of the year, and 3.3 million are expected to be exported for the entire year. While 1 million bicycles were expected to be exported by Shanghai according to the quota for the year, 569,500 have been exported during the first half of the year and 1.4 million are expected to be exported during the entire year.

The increase in the export of light industry products may first be attributed to the emphasis which has been placed by those in leadership positions at various levels in the central government and the localities on increasing the amount of exports, the drawing up of a series of policies to promote exports, and the offering of reasonable economic benefits to the enterprises. At the same time, many party and administrative leaders have taken upon themselves the responsibility of coordinating relations among the various parties to resolve their problems.

Since the beginning of the year, new developments have taken place in the unification of wages. Multilevel, multichannel, multitrading port, multipattern, and multimarket methods have been adopted to increase the export of light industry products. Aside from fully exploiting the role of foreign trade operations as a main channel for increasing exports, the importance of such means for earning foreign exchange as getting the enterprises within the light industry system to engage in export operations, in export operations of joint enterprises, and in the development of import and export operations of "the three forms of import processing and compensation trade" should not be overlooked.

9621

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INDUSTRY

SHENYANG'S TIEXI ZONE PLANS RENEWAL PROGRAM

HK230531 Beijing CHINA DAILY (BUSINESS WEEKLY SUPPLEMENT) in English 10 Sep 86
p 2

[Article by Liu Shanhong]

[Text] It is widely acknowledged that Shenyang, a historic city in Northeast, is China's most well-developed and diversified industrial base. Yet very few know Tiexi industrial zone, the nucleus of Shenyang's industry.

Tiexi, one of five urban districts, lies in the east of Shenyang, covering 39.3 square kilometers, among which 12 are used for industry.

According to 1984 statistics, out of 151 large and medium-sized enterprises in Shenyang, some are [as published] 79 in the Tiexi industrial zone. Out of the State's 156 key projects in its first five-year plan, six were in Shenyang with three in Tiexi.

In 1985 the total industrial output of Tiexi industrial zone soared to more than six billion yuan, 39 percent of that for the whole city.

In terms of fixed assets, annual industrial output and the profits and taxes handed over to the State, the large and medium enterprises in Tiexi, account for half those of all Shenyang.

Since 1949, Tiexi has built more than 140 plants in a variety of sectors, such as metallurgy, chemical engineering, pharmaceuticals, building materials, textiles and food, with the engineering industry as a mainstay.

A total of 56 scientific research facilities and institutions have been set up in Tiexi, producing many new products.

Now, classified by production capacity and economic benefit, over 20 industries in the Tiexi area have been ranked first in their spheres nationally.

Products from this area have supplied a great variety of key construction projects, such as the Gezhouba and Longyang hydropower stations, Yuanbaoshan thermal power plant, the 500,000-volt transmission project between Shanxi and Beijing, the railway electrification project between Beijing and Qinhuangdao, eight major coal mines and other key projects.

The area has convenient transport links and wide roads with the Harbin-Dalian highway running through its centre which links it directly to Dalian sea port. Within the area, 133 industries have special rail lines to ship products from factories directly to the users.

The Shenyang Thermal Power Plant provides 19 big enterprises and 250,000 residents with centralized steam heating system.

Tiexi is rich in natural resources, with numerous coal mines and the Liaohe oil field, which provides natural gas to the district.

In 1931 Shenyang came under Japanese occupation. The industrial area was developed during the 1930s, but this meant that by 1949 much of its equipment was obsolete and a lack of planning control over its development left it poorly laid-out and limited its opportunities for development.

Now it is starting a programme of comprehensive renewal, aiming to boost old enterprises, introduce new industries and to improve the social and physical environment of the area.

The renewal will have two stages--the first up to 1990; the second up to 2000.

In industry, it will focus on about a dozen industries, including electrical engineering, machine tools, heavy machinery, general machinery, motor vehicles, agricultural machines, textiles and food.

It will involve renewal of about 15 major enterprises, including Shenyang Cable Factory, Shenyang Transformer Factory, Shenyang High-Voltage Switch Factory, Shenyang No. 1 Machine Tool Plant, Shenyang Chemical Engineering Plant, the Northeast Pharmaceutical Factory, Shenyang Gourmet Powder Factory and Shenyang Beer Plant.

Five technology and process demonstration centres for casting, forging, moulding, heat treatment and electroplating will be set up, as will testing centres for electrical equipment.

There will be a special high-technology park close to Tiexi for newly developed industries.

In the residential southern part of Tiexi, old residential areas with poor facilities, such as the old houses built in 1930s, will be replaced with new residential areas with complete domestic services.

It is also vital to reconstruct and expand commercial areas, and technical and cultural areas; to provide workers' educational and medical centres; and to improve transport, including widening and opening 14 main roads and building six multi-way bridges at intersections.

Controlling about 20 pollution sources, treating wastes and improving the environment will also be given priority.

Central government has already backed several key construction projects for the area, including an international airport, a new railway station, a reservoir, Shen Hai thermal power plant, a postal centre, a telephone project and a very high voltage transmission line.

During the Spring Festival in 1985, Premier Zhao Ziyang came to Shenyang and inspected the industrial zone. The State Council: has approved a report by the State Planning Commission saying that Tiexi industrial zone should be a national project for regional renewal, and enjoy the privilege of financial support and tax exemption policy.

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CSO: 4020/11

INDUSTRY

BRIEFS

SICHUAN INDUSTRY, COMMUNICATIONS--Despite high temperatures and a shortage of electricity supply, the workers on the industry and communications front of Sichuan Province scored good achievements in industrial production and communications in July. The gross industrial output value in July this year was 6.6 percent more than in the same period last year. Except for four cities, prefectures, and autonomous prefectures, including Luzhou, Mianyang, Aba, and Garze, whose gross industrial output value dropped, the gross industrial output value of the other cities, prefectures, and autonomous prefectures increased to different degrees. Compared with the same period last year, the output value of machinery up to July this year increased by 13 percent, of metallurgical industry by 12.9 percent, of chemical industry by 14 percent, of textile industry by 22.65 percent, of natural gas by 8 percent, and the volume of railroad transport by 9 percent. Of the 53 main products of the light industry, the output value of 38 increased and some increased by 20 to 80 percent. [Summary] [Chengdu Sichuan Provincial Service in Mandarin 2200 GMT 26 Aug 86 HK] /12232

CSO: 4006/33

SMALL-SCALE ENTERPRISES

BOOM IN ANHUI TOWNSHIP ENTERPRISES

Beijing NONGMIN RIBAO in Chinese 12 May 86 p 1

[Article by Wang Yuzhao [3769 6735 2507]: "Peasant Households Are the Driving Force in the Development of Township and Town Enterprises"]

[Text] Since the 3d Plenary Session of the 11th CPC Central Committee, the vast countryside has scored a major victory in the first stage of reform centered on the implementation of the contracted responsibility system. After meeting their basic daily needs, most peasants have rapidly proceeded to the second stage of reform characterized by the transition from a self-sufficient or semi-self-sufficient economy to large-scale commodity production. In the course of this significant change, we zeroed in on the development of township and town enterprises as the strategic thrust of the vitalization of the rural economy, without, however, relaxing grain production in the least. The results have been remarkably successful. In 1985, the gross output value of township and town enterprises across the province reached 8.52 billion yuan, up 81.2 percent over 1984. Township and town enterprises have boosted output value, profits and government revenues simultaneously and reshaped the structure of the rural economy. Their output value accounted for 36 percent of gross rural social output value, compared with 21 percent in 1984, or 201 yuan per capita. The development of township and town enterprises has also spurred the development of small towns and rural public welfare. Experience has convinced us that while China's rural areas rest on agriculture, they cannot prosper without industry.

A basic reason for the breakthrough township and town enterprises in Anhui have achieved in the last couple of years is our firm commitment to mass involvement.

Compared with other provinces and municipalities, Anhui is a latecomer to the game of township enterprises. Ours was a fledgling industry, with a shaky economic base and low production and managerial standards. How could its development be accelerated? All of us in Anhui, from top to bottom, searched far and wide for an answer. We sent people to developed areas everywhere to learn from their experience. We did learn many lessons from them, but none was more crucial than that they all took local realities at the time as their point of departure. It would be counterproductive if we, in our eagerness for results, mechanically copy a method here, a method there.

So we reviewed the situation in the province when it entered the first stage of rural reform. As the mass of peasants then welcomed the family contracting system, we complied with popular wishes and supported contracting, with excellent results. After the rural areas embarked on the second stage of reform, we firmly stood by our basic lesson, went out of our way to take realities as our point of departure and made sure that as many people got the message as possible.

The Fuyang area is one of the most impoverished areas in the province. In recent years, vast numbers of peasants have made gratifying progress in their search for a way to enrich themselves. For starters, they revived the production of traditional local products and applied themselves to commodity production. With a handful of households as trailblazers, entire villages and townships before long became areas of specialized production with specialized markets. The Fuyang prefectural party committee and administration office lost no time in endorsing this path to success charted by the masses themselves and, making the best use of the situation, put the stress in the development of township and town enterprises on the "three specializations" (specialized households, specialized villages and specialized business areas) and the "two factories" (household and joint household factories). As a result, all township and town enterprises in the area, large and small, developed rapidly. Their gross output value, a mere 197 million yuan in 1983, soared to 970 million yuan in 1984, an increase of more than 400 percent in just 1 year. The provincial party committee and government took the Fuyang experience very seriously and decided to popularize it throughout Anhui. They made it clear that "the source of strength of township and town enterprises lies with the tens of thousands of households" and emphasized the "district, township, town, village, joint household and household" as the "six wheels" whose simultaneous motion, particularly that of the latter two, is critical to driving the rural economy. In addition, they despatched responsible comrades from various prefectures and municipalities to Fuyang for on-site inspection so that they could exchange views as they studied the area and achieve a measure of consensus. The purpose was to spread the Fuyang experience throughout the province within a short time. In 1985, enterprises operated by households and joint households increased to 838,000, compared with 372,000 in 1984, up 125 percent. Their output value rose to 3.97 billion yuan, an increase of 175 percent over 1984, and accounted for 44.3 percent of the gross output value of all township and town enterprises, up from 31 percent in 1984. Fuyang provides a shining example for the rest of the province.

Why has the Fuyang experience borne fruit so rapidly all over Anhui? Basically because it is adaptable to most places in the province where the economic base is relatively weak, capital is scarce, technology is backward, qualified personnel are few and far between, and production and managerial standards are low. People find it acceptable because they see in it their potential for developing township and town enterprises and the course they can follow.

Why has the idea of setting up household and joint household enterprises been so popular among vast numbers of peasant households and joint households? For the following reasons:

1. It is easy to raise the little amount of capital a household or joint household enterprise requires. Some can be put together with less than a hundred yuan, several hundred yuan or a thousand yuan, which is a good way to make full use of the idle funds in peasants' hands. Nylon rope processing, for instance, is today a 40 million yuan business in Caimao district in Taihuo County. Had the peasants built a factory with an annual output value of 40 million yuan, it would have cost them 15 million yuan at least. But instead they chose the mass involvement approach, with equally good results. The peasants made rope-spinning wheels out of and set up shop in front or at the back of their houses or beside a ditch. It took the first household just a little over 20 yuan to go into business. This cottage industry caught on like wildfire, and the three pioneering households were soon joined by more than 4,000 households. What initially began in just one village in no time turned more than 130 villages into a cluster of specialized production areas and mini-economic zones, processing 6,000 tons of annually. Before long they graduated into a nylon rope production base geared to a nationwide market.

2. They can be put into production within a short time. Most household and joint household enterprises are small businesses. The peasants are very careful to pick projects that deliver results quickly, often as short as 7 or 8 days, several weeks, at most 3 months. At Dingwafang village in Tangling township, Hao County, 73 peasants from the Zhanghuaquan agricultural-industrial-commercial union pooled their funds and put up a plant with a daily output of 100,000 jins of noodles within 104 days. Seven state-run grain supply centers in the county town now order goods from this joint household enterprise.

3. They make full use of surplus rural labor. Last year township and town enterprises across Anhui created jobs for 3.31 million redundant workers, of whom 2 million, or 60 percent, found work in household and joint household enterprises. In Jianshan County, one of the major producers of mats in the province, 11,500 family factories have come into existence with a labor force of over 30,000 and an annual output of 3 million mats.

4. They make full use of local resources. Historically, such areas as Dayang, Shibali, and Shijiuli in outside Hao County used to grow herbal medicines. In the past, however, there was no attempt to process and fully utilize them. Now as many as a thousand peasant households and residents from the towns have set up medicine-processing plants, joining forces with six medicine-growing areas nearby. With an annual processing capacity exceeding 20 million jins valued at almost 100 million yuan, they have gained access to the market for processed medicines in more than 20 provinces.

5. Household and joint household enterprises are low-risk ventures. Peasants share the desire to become rich, but most of them are also leery of the risks involved. Household and joint household enterprises appeal to the peasants because their scale of production, capital requirements, and products are all on a small manageable scale. They can be put into production quickly, and if a peasant wants to shift gears midway, he can do so equally quickly. Household and joint household enterprises fill a niche in the market others

have ignored. They are versatile in that they can respond promptly to the whims of the market. If their product turns out to have a steady market following, the peasants can keep on producing it. Otherwise they can switch to another line of business readily. This flexibility relieves the peasants of their anxiety: They can afford to make a mistake or two without incurring crippling losses.

In short, the boom in household and joint household enterprises have breathed new life into the development of township and town enterprises. They will remain the centerpiece of our enterprise development strategy for a long time to come. As far as the development of township and town enterprises in Anhui is concerned, a clear picture has emerged in which rural major enterprises are the leading force with tens of thousands of households supplying the momentum. The driving force is the six wheels--district, township, town, village, joint household and household--in simultaneous motion.

12581

CSO: 4006/1158

SMALL-SCALE ENTERPRISES

JIANGXI PLANS TO SPEED UP TOWNSHIP ENTERPRISE DEVELOPMENT

Beijing ZHONGGUO XIANGZHEN QIYE BAO in Chinese 9 Jul 86 p 1

[By correspondent Zhu Bei [2612 5563]: "Applying Special Policies to Specific Conditions, Jiangxi Province Decided to Accelerate Development of Township And Town Enterprises By Supporting Them With Regard To Funds, Taxation, And Raw and Auxiliary Materials. Leadership of Town and Township Enterprises Will Be Strengthened And Support Services Will be Improved On"]

[Text] The Jiangxi Provincial People's Government recently called a work conference on township and town enterprises and decided to accelerate the development of township and town enterprises throughout the province by implementing special policies and measures, with due consideration for the actual conditions in Jiangxi.

Prior to the conference, Tian Jiyun, vice premier of the State Council, had inspected Jiangxi's township and town enterprises and pointed out: Township and town enterprises have only recently been started in Jiangxi Province, and the government must definitely support them most energetically. It is in this spirit that the provincial government and the relevant departments analyzed the condition of township and town enterprises in the province in concrete detail and realized that although township and town enterprises were greatly developed throughout the province during last year, their gross income having reached 5.16 billion yuan, the township and town enterprises in the old liberated areas and impoverished regions, accounting for two-thirds in area and half of the population of the province, are extremely backward and have even not at all been set up in a considerable portion of these areas. A conscientious study was subsequently made of the experiences made in recent years in fraternal provinces and municipalities in the matter of developing township and town enterprises and of the new general and specific policies adopted there. To catch up as rapidly as possible with developments in the country as a whole and in the East China region, the provincial people's government decided to adopt a policy of relaxing past restrictions and of invigorating various aspects, particularly the supply of capital funds, materials, and as regards taxation.

1. Financial Assistance. According to the principle of "self-reliance to be primary, state-support to be subsidiary," main reliance must be placed on joint operations with capital raised by the masses, reliance on accumulations

by the enterprises themselves, while financial departments, banks, and credit institutions at all levels shall simultaneously render energetic support. In future, all local organs shall every year allot a part of the increased tax revenue turned over by township and town enterprises to the use of supporting township and town enterprises. A portion of the funds granted by the state as assistance to the old revolutionary areas, to the economically underdeveloped remote mountainous areas, and to impoverished regions shall be used directly to develop township and town enterprises. All levels of the Agricultural Bank shall according to actual conditions relax restrictions on cash drawings by township and town enterprises, or by enterprises operated by one or jointly by several households.

Directing efforts particularly toward township and town enterprises, this year's loans by the Jiangxi Agricultural Bank to the amount of 87 million yuan and special loans granted by the central authorities to the old liberated areas and to assist impoverished regions were mainly used for the benefit of 401 specially impoverished villages throughout the province to develop such trades as the processing of agricultural and sideline products, opening of mines, small-scale hydroelectric plants, building materials, and transportation. The provincial agricultural bank, furthermore, instructed the credit cooperatives to grant loans amounting to 80 million yuan for the development of township enterprises. The provincial agricultural bank, moreover, placed bonds to the amount of 25 million yuan with rural enterprises of good profitability. This year the provincial agricultural bank is providing 50 percent more capital in support of township and town enterprises than during the corresponding period last year.

2. Taxation shall be carried out on the principle of payment of full tax amount first, with any reclamations to be considered later. Excepting items explicitly designated by the state as never to be exempted from taxation, all industrial products newly manufactured and marketed by township and town enterprises shall be exempt from product and added-value tax for 1 year from the date of regular production.

As from this year, township and town enterprises shall be exempted from tax on rewards and bonuses.

Charges to the comprehensive depreciation fund for fixed assets of township enterprises shall from now on be made by all those that did not do so in the past. Enterprises of good profitability may have this charge raised by 2 to 3 percent over the assessment of the past. Funds for large-scale overhauls may be allocated at half the depreciation rate. Charges to the depreciation fund must be deposited in the name of a special account; all such funds must be used for renovations and improvement of equipment and must not be diverted to other uses. Charges to the enterprise welfare fund may be made at the rate of 1.5 percent of the total amount of salaries and wages. Contributions to a planned overall personnel retirement fund may be allocated at 15 to 25 percent of the total amount of salaries and wages depending on the varying conditions in the enterprises. Expenditures of a social nature may be charged at 10 percent of profits before taxes. All technical loans may be repaid out of newly increased profits before taxes.

3. In matters concerning the supply of energy, raw and semifinished materials, energetic support must be rendered by the planning, materials, and other relevant business departments, first, by opening individual accounts, and second, by including items in the plans, where possible, and if not possible by assisting in arranging for unplanned supplies. Priority consideration shall be given to the supply of raw and semifinished materials, and fuel, needed for the manufacture of high-grade national, departmental, or provincial products that are exported and earn foreign exchange.

To support township and town enterprises, the Materials Bureau of Jiangxi Province recently arranged, in addition to the 17 million tons of ship-breaking steel plates available according to plan figures, in an ingenious way for an extra allocation of 3,000 tons of steel materials, increasing the target figure for steel materials by 5,700 tons above the figure of last year.

9808

CSO: 4006/1220

SMALL-SCALE ENTERPRISES

ON HUBEI'S TOWNSHIP ENTERPRISES

Beijing RENMIN RIBAO OVERSEAS EDITION in Chinese 24 Jul 86 p 3

[Unattributed report: "Former Exports of Raw Materials Now Become Exports of Finished and Semifinished Products; Hubei's Township Enterprises Rapidly Develop Export Commodities; 5-Year Exports Amount to 300 Million Yuan"]

[Text] Wuhan, 22 Jul, XINHUA SHE--HUBEI RIBAO reports that the township and town enterprises of Hubei Province have exerted great efforts in producing of export commodities. Some products are already being exported to 39 countries and territories. The enterprises are building up an important work force precisely for the purpose of achieving more exports and of earning foreign exchange for their province.

Incomplete statistics show that Hubei's township and town enterprises supplied more than 300 million yuan worth of export commodities, of which 94,380,000 yuan worth of commodities were supplied in 1985 alone.

Over the past few years, Hubei's township and town enterprises have produced export commodities relatively rapidly. The "ba" [1056] lacquer from Lichuan, the "Gold Thread" tung oil from Laifeng, the black edible tree fungus from Fangxian, the shallots from Ezhou, and the canned Chinese chestnuts from Luotian, all enjoy a fairly high reputation on the international market. Building materials such as marble, granite, and barite are being exported ever more in the form of semifinished or finished products as opposed to exports of the raw material which was the norm in the past. The threshers, bearings, metal utensils, and other machinery and electrical products manufactured by the township and town enterprises are now also beginning to show promise in the international market.

Many township and town enterprises have become key export commodity manufacturers among the provincial township and town enterprises. The commodities exported by the folding fan and chopsticks factory of Yangloudong in Puqi County has developed over 200 standard items. They transacted 1.2 million yuan of trade with foreign businessmen at this year's Guangzhou Spring Fair. The precious stone and bamboo garment factory in Tongshan County weaves ladies' mesh vests from fine bamboo strips in combination with precious stones and chains of pearls into glittering and translucent items of unique style. The woven articles manufactured by township enterprises from silk, straw,

bamboo, coir, rattan, and willow branches, as well as their carvings from jade, stone, bamboo, shells, tree roots, and wood, are each of a distinctive style, and come in a great variety of shapes and styles, much welcomed and rated highly on the international market.

9808

CSO: 4006/1227

SMALL-SCALE ENTERPRISES

TOWNSHIP AND TOWN ENTERPRISES IN ASCENDANCY

Beijing ZHONGGUO XIANGZHENQIYE BAO in Chinese 20 Aug 86 p 1

[Article by He Kang [0149 1660]: "Characteristics of Township and Town Enterprises"]

[Text] Township and town enterprises were gradually developed by Chinese peasants on the basis of rural handicraft industries and the processing of primary agricultural products in the countryside. They include enterprises run by villages, cooperative enterprises jointly operated by some peasants, other forms of cooperative enterprises, and individual enterprises. Since the 3d Plenum of the 11th CPC Central Committee resolved in 1978 that rural China develop agriculture, forestry, animal husbandry, and sideline production comprehensively, and tackle agriculture, industry, and commerce together, township and town enterprises have been springing up like mushrooms all over the countryside. They have become a key component of China's national economy and represent the only way to vitalize the rural economy and enrich the vast numbers of peasants. In 1985, collective and individual township and town enterprises numbered 12.22 million in all, of which 850,000 were at the township and village levels, hiring a total of 69.8 million people, or 19 percent of the total rural labor force. They had 75 billion yuan in fixed assets and 59 billion yuan in circulating funds. In 1985, the output value of township and town enterprises reached 272.8 billion yuan, 17 percent of the nation's gross value of social output. Of the total of 272.8 billion yuan, the industrial output of township and town enterprises accounted for 183.1 billion yuan, 19 percent of the nation's gross value of industrial output. Township and town enterprises have played an important role in the development of the entire national economy, paying 13.72 billion yuan to the state in taxes in 1985.

China's township and town enterprises, which have flourished in the wake of the restructuring of the economic system, include farming and breeding, in the primary industry; coal mining, power industry, chemical industry, metallurgy, construction materials, machinery, lumber industry, textiles, foodstuffs, apparel, leather goods, paper-making, arts and crafts, and construction, in the secondary industry; and communications, transportation, restaurants, and services, in the tertiary industry. As a sign of their special vitality, they have chalked up a faster growth rate than the average national economic growth rate in recent years.

In 1985, township and town enterprises contributed 44 percent of gross value of rural social output and provided jobs for almost 70 million redundant farm laborers, making possible improvements in agricultural labor productivity and increases in peasants' earnings. During the Sixth 5-Year Plan, enterprises at the two levels of township and village alone provided about 6 billion yuan in capital to agriculture and 23.2 billion yuan to a variety of rural projects and undertakings. Because of the development of township and town enterprises, 6,600 new market towns have begun to take shape. In 1985, peasant earnings rose to 397 yuan per capita, up from 191.3 yuan in 1980, a net gain of 205.7 yuan, of which 45 yuan on average were due to a rise in village enterprise wages.

Products made by township and village enterprises cover a wide spectrum and account for substantial shares of national output in the same categories:

raw coal, 28.9 percent of national total

silk, 11,200 tons

silk fabrics, 550 million meters

apparel, 50 percent of national total

output value of building materials, 53 percent of national total

number of construction workers, 60 percent of national total

50 percent of the output of township and town enterprises in the machinery industry consist of parts, components, and accessory equipment for large state-owned enterprises. Adapting themselves to market needs, they have filled a void in the industry and made good gaps in the product line of state owned enterprises.

The characteristics of Chinese township and town enterprises are the following:

(1) Small in scale and large in number, they are widely distributed across the vast countryside. (2) They are located near where raw materials are produced and have an extensive market and an ample labor supply. They require little capital and pay off quickly. (3) As enterprises run by the masses themselves, they have a considerable measure of autonomy and are full of vitality; (4) They are sensitive to market economic information and feedback, and flexible in their production planning.

After China adopted the "policy of opening to the outside world," the products of township and town enterprises have been making their way into the international market rapidly over the last couple of years. In 1985, township and town enterprises earned about \$4 billion in foreign exchange from their exports. According to incomplete data, currently over 8,000 township and town enterprises have foreign trade and export commitments. Enterprises jointly operated by township and town enterprises and foreign companies now total 870, and as many as 1,000 enterprises are engaged in the "three forms of processing and compensation trade."

Undeniably the vast majority of China's township and town enterprises are still fitted with outdated equipment and follow obsolete technology and processes; they are suitable candidates for technological transformation. For

this reason, township and town enterprises are particularly interested in absorbing overseas capital and importing advanced technology, equipment, and processes in order to transform aging enterprises and develop a host of new ones at the same time. Township and town enterprises warmly welcome cooperation with overseas individuals from all quarters, overseas Chinese, and Hong Kong and Macao compatriots. They are especially keen to enter into business contacts and cooperate with small and medium-sized companies abroad on a long-term basis. The forms of cooperation range far and wide and can take any of the following: joint venture, cooperative venture, leasing of equipment, technology transfer, trade, and economic exchange.

In the long run, the development of township and town enterprises will help settle the surplus rural labor, promote rural commodity production, nurture market towns, and obliterate rural-urban differences. Hence it is a vital strategic measure in the construction of socialism with Chinese characteristics and a major government policy in the development of the rural economy. It has a bright future.

We cordially welcome people from the financial, trade, and industry circles overseas to establish direct ties with all township and town enterprises in China. We will strengthen cooperation on the basis of equality and mutual benefit so that partners in a venture obtain legitimate economic benefits.

12581

CSO: 4006/21

SMALL-SCALE ENTERPRISES

DEVELOPMENT OF TOWNSHIP AND TOWN ENTERPRISES REVIEWED

Beijing ZHONGGUO XIANGZHENQIYE BAO in Chinese 20 Aug 86 p 1

[Article by Zhou Handa [0719 3211 6671]: "Township Enterprises A Vital Force in Foreign Trade"]

[Excerpts] A burgeoning economic force, township and town enterprises have flourished and brought prosperity to China's rural economy. As China opens itself more and more to the outside world, township and town enterprises have also moved from the countryside to the world and become potentially a key player in China's foreign trade to earn foreign exchange.

Today over 8,000 township and town enterprises have foreign trade commitments, producing 20 major categories of products, including machinery, industrial chemicals, building materials, minerals, light industrial goods, foodstuffs, textiles, apparel, arts and crafts. In 1985, township and town enterprises earned as much as \$4 billion in foreign exchange, including income from labor services and worker

Nurtured by governments and foreign trade agencies at all levels, township and town enterprises have changed export production and export mix:

Development acceleration. Over the past 2 years, the export procurement rate of township and town enterprises in such provinces and municipalities as Jiangsu, Shanghai, Zhejiang, Fujian, Shandong, Guangdong, Tianjin, and Beijing has all been increasing at an annual rate of more than 18 percent. In the first half of 1986, foreign trade procurement by township and town enterprises in Shanghai was worth 30 percent more than the corresponding period last year. So far 16 percent of the industrial products of the municipality's township and town enterprises have been earmarked for direct export, with a procurement value exceeding 1 billion yuan. Making full use of the fact that many of its residents have relatives overseas, Fujian has been assiduously wooing foreign capital and establishing linkages with enterprises in the mainland to develop export-oriented businesses. During the first 6 months this year, township and town enterprises in the province delivered exports with a total price tag of 130 million yuan, up 60 percent over the same period in 1985.

A strong export production capacity. In recent years, foreign trade agencies and departments in charge of township and town enterprises have been paying

close attention to the enterprises as exporters and earners of foreign exchange. By attracting foreign capital and cooperating with units in the interior, a host of factories specializing in the production of exports; integrated trade, industrial, and agricultural enterprises; and integrated industrial and trade enterprises have merged. They operate on a large scale and are modernly equipped. Of all the nation's township and town enterprises, over 870 are joint ventures or cooperative ventures involving foreign companies. According to incomplete data from Guangzhou, Shanghai, Wuxi, and Changzhou, among other places, there are over 650 export specialized factories jointly operated by township and town enterprises and foreign businessmen. Township and town enterprises account for 40 percent of the woolen sweaters exported through the Shanghai Knitwear Import and Export Corporation.

A shift from raw materials to finished products and industrial processed goods as the major exports, from primary processing to the production of high-grade, precision and advanced products, and from small-batch production to mass production. No longer do township and town enterprises today export minerals and the usual arts and crafts such as straw-woven goods alone. They are also sending into the world market sophisticated products like machine tools, auto parts, petroleum drilling equipment, and high-class fashions. The universal joint cross, made by Hangzhou Universal Joint Factory, is the first product from China's automobile industry to crack the international market. The FK series of hydraulic anti-spurt control system, produced by Guangzhou Petroleum Machinery Plant, a township enterprise, not only is used by oil fields like Daqing, Zhongyuan and Daguang, but is also good enough to enter the international market. Shuangjie Steel Tube Plant in Shuanjin exports steel tubes to Europe, earning over \$4.5 million in foreign exchange last year. Fashionable embroidered garments by Beicai Embroidery Factory in Shanghai are sold in more than 20 countries, including Japan and the U.S., raking in 9 million yuan in foreign exchange annually. The model 450 anti-corrosive filter press made by Qiqiao Filter Press Plant in Potoushi, Hebei, has broken into markets like Sweden and Australia.

To further enhance their export competitiveness, township and town enterprises are continuing to implement the policies of opening China to the outside world and invigorating the economy. Fully exploiting their resource advantage and relying on raw materials, they are importing capital, technology, and equipment, expediting the marriage between modern technology and traditional arts and crafts, developing famous, special, and superior products, and going all out to raise product quality. They take the "new," "high," and "low" tack, that is, producing "new," "high-quality," and "low-priced" products. At the same time, they are actively cooperating with foreign trade agencies, major industries, and scientific research units to develop horizontal economic linkages, bring about industrial and trade integration, and establish joint enterprises in order to enhance their ability to open up the world market.

12581

CSO: 4006/21

CONSTRUCTION

CONSTRUCTION BEGINS ON BRIDGE ACROSS SONGHUA JIANG

Harbin HEILONGJIANG RIBAO in Chinese, 3 Jul 86 p 1

[Article by reporters Zhou Yanhe [0719 1693 3109] and Zhang Limin [1728 0448 3046]: "Construction Begins on Jiamusi Highway Bridge Across Songhua Jiang"]

[Text] Construction work on the second highway bridge across the Songhua Jiang--Jiamusi-Songhua Jiang Highway Bridge--began at 2:30 pm yesterday. The rumble of machinery at the construction site filled the air as drill rods were inserted into the silent mother earth.

There is not a single highway bridge spanning the Songhua Jiang as the torrential 1,000-li river surges eastward for 500 km from Harbin to Jiamusi. Since the Heda-Haluo-Hetong Highway is cut off by the river, motor vehicles going from north to south and the other direction have to use the ferry in summer and travel over ice in winter. The only ferry is jammed with vehicles throughout the year. For a period of over 100 days between the freezing and unfreezing of the river, large mounds of materials are piled up on both sides of the river.

Approval for the construction of the Jiamusi-Songhua Jiang Highway Bridge was given by the Ministry of Communications in 1984. Designed by the provincial highway and planning office, construction work on the Harbin-Songhua Jiang Highway Bridge is being undertaken by the Provincial Road and Bridge Construction Co. It is being constructed in the hinterland of the plain--a focus of world attention--traversed by three rivers at Fanjiacun in Changqing Village 5 km from the center of Jiamusi. Measuring 1,396 meters in length, it is at present the longest highway bridge in the three provinces in northeast China. The main bridge is 910 meters in length. The net width of the bridge is 17 meters and the road, 14 meters wide, has four lanes for motor traffic. The sidewalks on both sides of the bridge measure 1.5 meters in width. The entire bridge has 25 arches, while the main bridge has 9. The longest span measures 120 meters. There are 8 arches at both ends of the side arches of the bridge, each of which measures 30 meters. The approach road from both directions is a Class 1 and Class 2 blacktop road measuring a total of 4,210 meters. This highway bridge is one of the large and medium-size construction projects of the state as well as one of the key engineering projects in Heilongjiang Province. At a cost of 86 million yuan, it is expected to be completed in 4 years and put into operation on 1 October 1990.

9621

CS0: 4006/1306

CONSTRUCTION

IMPROVEMENT OF CONSTRUCTION QUALITY URGED

Beijing RENMIN RIBAO in Chinese 13 Aug 86 p 2

[Article by reporter Ge Daxing [5514 1129 2502]: "Improvement of the Quality of Construction Projects and the Removal of Hidden Dangers are Matters of Utmost Urgency"]

[Text] The results of a recent "Spot Check of the Quality of 100 Construction Enterprises and 100 Construction Component Factories Throughout the Nation During 1986" indicate that the improvement of the quality of construction projects in the reform of our construction industry and the development of production remain a task of utmost importance.

The check-up undertaken by the Ministry of Urban and Rural Construction and Environmental Protection, officially begun in April, was concluded in early July. Among the completed construction projects and projects in progress which were found to be up to standard were those undertaken by only three units, namely, the No 1 Construction Engineering Co in Shanghai, the No 3 Construction and Engineering Co in Shanxi, and the No 4 Construction and Engineering Co in Jinan. Among the 10 units whose completed construction projects and projects in progress were found to be substandard were the Wuhua District Construction Co in Kunming, the Putuo District Construction Co in Shanghai, the No 2 Construction and Installation Engineering Co in Hefei, the Construction and Installation Co in Nanning, the No 3 Construction and Installation Co in Guilin, the Changyi Nanjing Construction Department in Jilin, the No 3 Construction Co in Xining, the No 2 and No 3 Construction Companies in Yinchuan, and the No 2 Construction Engineering Co in Ningxia. The structural quality and operational functions of 135 of 387 completed engineering projects were found to be relatively sound, while those of the rest were found to be defective. The major flaws include leaking roofs, cracks in the floor, loose doors and windows, seepage in pipes and falling light fixtures. Although these flaws pose no immediate threat to structural safety, they nevertheless constitute a hidden danger to the consumer.

Among the 100 structural material factories covered by the spot check, only the prefabricated concrete circular slabs produced by the Structural Materials Factory of the Beijing Municipal Construction Head Co and the Shanghai Residential Concrete Products Factory were found to be of superior quality, while

61 factories, 63 percent of the total, were found to be up to standard. The products of the Fuhai Cement Products Factory in the Guandu District in Kunming, the No 2 Construction Structural Products Factory in Changzhou, and the Cement Products Factory of the Chuxiongzhou Construction Co in Yunnan were found to be the poorest. The round-hole slabs which were found to be below standard were faulted mainly for the exposure of reinforcing steel bars, cracks, weakness of the extremities, and errors in measurement.

Judging by the results of the spot check, although there are obvious signs that the deterioration of the quality of construction engineering prevailing a couple of years ago has been somewhat reversed, there is still a lack of stability and hidden dangers posed by poor quality continue to exist.

9621

CS0: 4006/1306

30 October 1986

CONSTRUCTION

HEBEI: CONSTRUCTION OF BLAST FURNACE BEGINS

SK300644 Shijiazhuang HEBEI RIBAO in Chinese 16 Aug 86 p 1

[Exceprts] On the morning of 15 August, colored flags fluttered over the specious ground on the east side of the No 2 iron smelting plant of the Xuanhua Iron and Steel Company, and a deafening sound of songs, drums and firecrackers resounded over it. Provincial Governor Xie Feng, Zhao Lan, a representative from the Ministry of Metallurgical Industry, and other leading comrades inaugurated the foundation stone laying for the 1,260-[cubic meter] blast furnace project of the Xuanhua Iron and Steel Company.

The blast furnace is a construction project approved by the State Council and a key project of the metallurgical front for the Seventh 5-Year Plan period. After the blast furnace is completed and commissioned, the Xuanhua Iron and Steel Company will be able to increase its annual pig iron output from 600,000 to 1.05 million tons and improve its economic results. Meanwhile, the shortage of pig iron supply in north China will be eased.

Construction of the blast furnace requires an investment of 300 million yuan. Of the sum, 170 million yuan will be loans arranged by the Ministry of Metallurgical Industry for equipment renewal and technical transformation, and the rest will be raised by the Xuanhua Iron and Steel Company itself.

/12232

CSO: 4006/33

DOMESTIC TRADE

SICHUAN'S DOMESTIC TRADE SEEN AS VIGOROUS

Chengdu SICHUAN RIBAO in Chinese 10 Jul 86 p 1

[Article by Gu Guocai [6581 0949 2624]: "Through Lateral Economic Relations Trade Flourishes; Dealings on the Principle of Mutual Benefit and Reciprocity Bring Prolific Revenue--Enterprises of the Commerce Department of Sichuan Province Are Full of Vitality"]

[Text] During the last 2 years, the commercial departments at all levels of the Sichuan provincial administration, stimulated by the reform of the economic system, guided the various trades of the province to proceed from their own distinctive characteristics, and while observing the principle of mutual benefit and reciprocity, they vigorously developed lateral economic relations, opened up new markets outside of the province, and enriched the supply of commodities in the rural and urban markets of this province.

Sichuan trades dealing in nonstaple foodstuffs made it a key task to open up new markets outside of this province and to vigorously develop lateral economic relations. Foodstuffs departments throughout the province, benefiting by the year by year increases in hog production, exerted great efforts in opening up new markets outside of this province. In 1985, through the development of lateral economic relations, they shipped out over 3.6 million live hogs, which accounted for 54.68 percent of all exports from the province. During the period from the fourth quarter of 1984 to the end of last year, the Sichuan-Guangdong Foodstuffs Trading Co., which was set up jointly by the Sichuan and the Guangdong foodstuffs trading companies, shipped to Guangdong over 30,000 tons of cuts and carcasses, and established a steady market outlet outside of this province for Sichuan's live hogs. As a means of solving the problem of Sichuan's vegetable production, which at peak season exceeds local marketing capacity, the establishment of lateral economic ties enabled last year the shipment of over 80 million jin to northern cities. This year the shipments will reach 110 million jin, ensuring continued benefits for vegetable growers. The trading center for agricultural, sideline, and local specialty products at the Red Flag Nonstaple Foodstuffs Market in Chengdu developed to the fullest the advantage importing from outside and cooperating with units in other parts of the country. They attracted 39 enterprises dealing in nonstaple foodstuffs and 8 factories of

different trades from within and from outside the municipality to set up their own stalls in the market, an action which increased the amount of merchandise sold 4.3 times and increased profits 7.15 times.

Trades dealing in manufactured goods for daily use, setting themselves the expansion of commodity purchases and sales as their central task, developed on a large scale such activities as joint business operations and joint marketing, purchasing and marketing agency arrangements, joint purchasing with separate marketing, separate purchasing and joint marketing, and the establishment of stable purchasing and marketing connections, all in efforts to expand commodity purchasing and marketing. In 1985 imports of manufactured goods into the province increased 22.9 percent compared with the corresponding period of the preceding year. Through the development of lateral economic ties, the one system of the Chongqing Commerce Department alone was able last year to increase the distribution of local manufactured goods to outside the province by 31.2 percent compared with the preceding year, thereby effectively promoting the development of local industry. Joint company-with-company business operations, as developed within the trading community, are the most widespread, most dynamic, and most effective patterns of joint operations. The Chengdu Metals Co. was able through widespread development of joint company-with-company business operations with establishments inside and outside the province to increase the amount of this year's joint operations to reach over 20 million yuan, an increase of over 30 percent compared with last year. Joint industrial and commercial business operations have had an early start in Sichuan and are being developed from initially merely solving the contradictions between industry and commerce to now having to comply with the needs of socialized large-scale production by joining together, while dividing profits, and to achieve their common development. By joining up with electric fan manufacturing enterprises, the Chongqing Communications and Electric Power Station could increase its sales in 5 years by over 8 times and marketed products over long distances to 14 provinces and municipalities. The catering trades were able by developing lateral economic relations to take full advantage of the high quality of Sichuan's fruits and famous snacks with most remarkable economic results. Currently, the catering trade of the entire province is operating, jointly or independently, over 50 Sichuan restaurants of different types in 18 provinces, municipalities, and autonomous regions throughout the country, operations from which almost 1 million yuan of labor income is earned.

3808
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FOREIGN TRADE AND INVESTMENT

ANHUI MAKES NEW USE OF FOREIGN INVESTMENT IN 1986

Hefei ANHUI RIBAO in Chinese 28 May 86 p 1

[Article by Han Shu [7281 2118]: "New Progress This Year in Anhui's Ways of Utilizing Foreign Capital"]

[Text] Since the start of this year, a very satisfactory situation has become apparent in the way Anhui is using foreign capital. Up to the end of April, contracts for 22 new projects have been signed with foreign businessmen, involving the use of foreign capital; these transactions amount to a total of more than \$46 million, of which more than \$30 million are direct investments by foreign businessmen.

Foreign capital is used in the form of joint ventures, cooperative management enterprises, compensation trade, and leasing operations. Foreign capital is primarily used for industry and in second place for service trades. The sources of foreign capital are such countries and territories as Hong Kong, Canada, Italy, the Philippines, the United States, Denmark, France, Japan, and Finland.

To speed up checking and approval of contracts, and to reduce wrangling among departments, the economic and trade commission of the province has designated 11 relevant departments, the provincial economic commission, the finance bureau, the industrial and commercial administrative bureau, the labor bureau, the tax bureau, the foreign exchange control bureau, and the lawyers' office, as departments in charge. They have conducted collective hearings on specific problems of larger significance and thereby facilitated the operations of the enterprises, raised work efficiency, strengthened lateral links between departments, and promoted the smooth progress in all work related to the use of foreign capital.

9808

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FOREIGN TRADE AND INVESTMENT

FOREIGN EXCHANGE LOANS TO YUNNAN INCREASED IN SIXTH 5-YEAR PLAN

Kunming YUNNAN RIBAO in Chinese 27 May 86 p 2

[Article by Zhou Xiyuan [0719 6932 3293]: "Intensive Use of Foreign Capital in the Development of Yunnan's Economy--Rapid Expansion of Yunnan's Foreign Exchange Loans During the Sixth 5-Year Plan"]

[Text] The period of the Sixth 5-Year Plan saw a rapid expansion in Yunnan's foreign exchange loans. The foreign exchange loans approved during 1985 alone exceeded the number of loans during all of the 13 years since Yunnan began in 1973 to approve foreign exchange loans on an experimental basis, and they were 34 times more than such loans approved during the Fifth 5-Year Plan. The total amount of foreign exchange loans during the Sixth 5-Year Plan was more than 51 times the amount of such loans during the Fifth 5-Year Plan. The rapid development of foreign exchange credits stimulated Yunnan's imports of advanced technologies and equipment and accelerated the technical transformation and technological progress in the medium and small-scale enterprises throughout the province.

When granting foreign exchange loans, the Kunming branch of the Bank of China pays particular attention to supporting the superior products of Yunnan, such as tobacco, nonferrous metals, machinery, and products of the chemical industry. During 1984 and 1985 alone, the bank granted foreign exchange loans amounting to over \$30 million to the tobacco industry to enable the Yuxi, Kunming, Qujing, Chuxiong, and Zhaotong cigarette factories to import 90 sets of key items of machinery for the manufacture and packaging of cigarettes, thereby accelerating the technological transformation in these five factories and raising the quality and the volume of cigarette production, thereby also enhancing their capability to earn foreign exchange through exports. In 1985 cigarette exports earned \$25 million in foreign exchange, which was more than in any previous year, providing the local authorities with almost 1.6 billion yuan of revenue. The Yunnan phosphate fertilizer factory used a loan of over \$10 million of foreign exchange to import equipment for ardealite reslashing and washing equipment, and also built and commissioned workshops for "zhong" [6850] calcium and sulfuric acid production. The "zhong" calcium was exported for the first time to Japan, and the first "zhong" calcium export enterprise was established in China. In December of the same year, the enterprise was

successful in bidding, in competition against many other countries, when Sri Lanka invited tenders for 20,000 tons of "zhong" calcium. This year export contracts for 38,000 tons of "zhong" calcium have been signed..

Foreign exchange loans are an important channel of utilizing foreign capital. Yunnan's engineering and electrical industries use foreign exchange loans to actively import advanced technologies and equipment and to update their products. This year imported technologies and equipment of 10 projects are already being introduced, assimilated, and absorbed by enterprises, which makes it a record year over the last 35 years in Yunnan's engineering and electrical industries, as far as project imports are concerned. This will induce the "trifold antiquated" enterprises in these industries (old plants, old equipment, old techniques), established at the time of the War of Resistance Against Japan, to accelerate their technical transformation and technological progress, and will have the result that many engineering and electrical products manufactured in Yunnan will achieve the international level of the end of the 1970's or beginning 1980's.

9808

CSO: 4006/1150

FOREIGN TRADE AND INVESTMENT

NINGXIA COMMODITY INSPECTION BUREAU AIDS FOREIGN TRADE

Yinchuan NINGXIA RIBAO in Chinese 8 May 86 p 1

[Article by Pan Mengyang [3382 1125 7122] and Jiang Senlin [5592 2773 7792]: "Changing From a Pure Control Function to an Integration of Inspection with Service--The Commodity Inspection Bureau of the Autonomous Region Contributes to Increasing Exports and Foreign Exchange Revenue Earnings--Improving the Quality of Taixi Coal Alone Yielded the State \$360,000 More Foreign Exchange Last Year"]

[Text] The Ningxia Import-Export Commodity Inspection Bureau coordinated its work closely with the production and foreign trade departments, and while conscientiously inspecting and exercising strict controls, also assisted the production units in raising the quality of export products, thereby actively contributing to the increase of exports and larger foreign exchange earnings.

During the last 2 years, as Ningxia accelerated its opening up to the outside, the lots of import and export commodities, their quantity and total value, increased tremendously. With limited personnel and the increased workload, the Import-Export Commodity Inspection Bureau changed its former method of exercising a pure control function by integrating inspection with control and control with service, thus having production units as well as social inspection function to the utmost of their capacities, integrated with the actual conditions of the Ningxia Autonomous Region. Concerned for the qualitative improvement of its export products, Ningxia has at different times during the last 2 years promulgated 13 administrative measures and regulations. The enforcement of these regulations have had marked results. After the bureau implemented the "Measures for the Inspection and Control of Fur Bedding and Fur Garments for Export," and instituted a trilevel system of control and inspection, the quality of beddings from the fur of the tan sheep was much improved, and claims for compensation on account of bad quality ceased.

The bureau, furthermore, dispatched inspection teams for an investigation of the true situation in over 80 production and trade units throughout Ningxia, to jointly confer on methods to raise product quality. With assistance from the said bureau, the Rujigou coal mine took resolute action to improve the quality of export coal and adopted a method of extracting, loading, and shipping according to quality, and of shipping selected lots of raw coal to

the screening plant. At the screening plant, the bureau set up a special quality inspection station, also sent special staff for quality inspection to the actual places where dressing and screening is done, so as to be immediately available in case of any problem arising. Due to all-round controls, the quality of the Taixi coal was continuously improved. In 1985, by the mere fact of raising prices to foreign buyers on account of better quality, \$369,300 in additional foreign exchange was earned for the state.

In 1985 not one lot of commodities exported from Ningxia was found not up to standards, and there was no case of a foreign buyer claiming compensation for reasons of quality. Many export commodities were favorably commented upon by port authorities and foreign buyers.

At the recent Conference on Import-Export Commodity Inspection in the Ningxia Autonomous Region, 7 units, 7 collectives, and 24 individuals received commendations and rewards for advanced performances. Yang Huiyun [2799 1920 0061], vice chairman of the Ningxia Autonomous Region, attended the conference and delivered a speech.

9808

CSO: 4006/1150

SPECIAL ECONOMIC ZONES

INVESTMENT CLIMATE IN SPECIAL ECONOMIC ZONES

Guangzhou GUANGDONG SHEHUI KEXUE [SOCIAL SCIENCES IN GUANGDONG] in Chinese No 2 Jun 86 pp 58-62

[Article by Chen Zhaobin [7115 5128 2430]: "Improving Investment Climate in Special Economic Zones"]

[Excerpts] What is the investment environment in China's special economic zones [SEZ's]?

(1) A safe investment climate. Since the 3d Plenum of the 11th CPC Central Committee, China has made it a long-term national policy to open to the outside world, explicitly affirming the legal status of investors and ensuring their legal interests in both the constitution and legislation dealing with foreign economic relations. Under the "Chinese-Foreign Joint Venture Law," the Chinese government protects the investments of foreign partners in joint ventures made in accordance with agreements and contracts approved by the Chinese government as well as their due profits and other legitimate returns. In practice, the Chinese government has consistently safeguarded the legitimate rights and interests of foreign businessmen. To enhance foreign investors' sense of security and give them even better legal protection, China has formulated a series of laws governing foreign economic relations. In recent years, China's legislative bodies have drawn up over 50 pieces of such laws, rules and regulations. Economic legislation for SEZ's has also received the close attention it deserves. The "Regulations for Special Economic Zones in Guangdong," promulgated in 1980, established their legal status, legally affirming some of the more important policies and measures on SEZ's. To make SEZ legislation better still, the Guangdong and Fujian Provincial People's Congresses and their standing committees were authorized in November 1981 to formulate special laws and regulations for their respective zones. Subsequently the standing committee of the Fifth Guangdong Provincial People's Congress passed and promulgated four sets of regulations: "Provisional Regulations of Guangdong Province for Controlling the Entry and Departure of SEZ Personnel," "Provisional Regulations of Guangdong Province for the Regulation of Enterprises," "Provisional Regulations of Guangdong Province for the Control of Labor and Wages in SEZ's," and "Provisional Regulations for Land Management in the Shenzhen SEZ." These regulations spell out clearly in statutory form some SEZ policies and measures. This was followed by a string of special regulations governing various aspects of foreign economic

relations, such as commodity and real estate management, foreign economic contracts, technology import, enterprise registration, and land use fees, etc. These laws, rules and regulations provide a favorable environment for foreign investors and a legal basis for their business activities, and legally safeguard their assets, due profits, and other legitimate rights and interests. Because economic legislation has gotten better and better, accompanied by a continuous improvement in the overall investment environment, foreign investments in recent years have been increasing steadily.

(2) A stable investment environment. Investors invariably hope that the place where they put their money will enjoy sustained political and economic stability. Investors who make long-term investments in resource development are particularly concerned to weigh the risks their investments are exposed to. In the case of China, the political situation has been stable since the 3d Plenary Session, which can be said for few other nations. Economically, both industrial and agricultural output has been expanding appreciably year after year, and every line of business is booming. Owing to reforms and the policy of opening to the outside world, in particular, the vast countryside and cities, fast shedding their backwardness, are a picture of prosperity. Political stability and economic prosperity provide an excellent environment for investors.

(3) A profitable investment environment. This includes China's market, resources, the quality of its labor force, level of wages, prices, and so on. A market consisting of 1 billion people, abundant resources, an ample labor supply, and relatively low wages--these are all advantages unique to China that make it an extremely attractive place to many investors. China's rapid economic growth in recent years, rising living standards, and the prosperity which some areas have already achieved ahead of others, in particular, suggest an expanding massive demand. The fact that price levels in China's market are relatively stable also means high profits for the makers of advanced and modern products. China, therefore, is a very profitable place for investors.

(4) An investment environment that offers preferential treatment. To encourage the inflow of foreign capital, China has offered an array of preferential treatments in such matters as tariffs, joint industrial and commercial tax, and income tax, and allowed part of the products to be sold domestically. In this respect, China's policy is more or less similar to that of other places and regions in the world. Each has its own strengths and weaknesses. Singapore's tax code, for instance, is good in that it offers clear and comprehensive incentives. For example, an enterprise manufacturing products on the cutting edge of technology is granted a 10 to 15-year exemption from income tax by on the presentation of a new product certificate. If an enterprise exports 20 percent of its total output, it will be exempt from paying income tax on 90 percent of its earnings for a period of 5 years. If the enterprise in question belongs to a sunrise industry, the exemption period will be extended to 15 years. To encourage research and development in new technology and new products, enterprises are allowed to double their R & D expenditures for the purpose of income tax calculation. When enterprises purchase computers and robots, they can write off depreciation within a year. All this is worthy of emulation.

(5) An investment environment that provides good services. Investment services include facilities for land, sea and air transportation and telecommunications, commercial facilities, and services in daily life, such as restaurants, urban infrastructure, and service efficiency. Major improvements have been made in this regard in recent years. The two SEZ's of Shenzhen and Zhuhai not only have the geographical advantage of being close to Hong Kong and Macao, but have also put up a string of guest houses, restaurants, tourist attractions, and shopping centers to make the daily life of foreign investors easier. Whether it is roads, transportation, telecommunications or banking, things are notably better now than before. People in the SEZ's have also become more efficient.

The above indicates that a favorable investment climate has come into existence in SEZ's and will get even better in the days ahead.

Preferential Treatment in SEZ's

Preferential treatment holds the key to attracting foreign investments and needs to be examined closely. Chinese SEZ's offer the following preferences:

1. Operations and management. 1) Foreign investors are given a fair amount of autonomy. It is their choice to go it alone or enter into a joint or cooperative venture with the zone. 2) They are allowed to hire foreigners, overseas Chinese, or people from Macao and Hong Kong to fill technical and managerial positions. 3) In hiring Chinese workers, they can either go through labor service companies or recruit on their own. Employment is on a contract basis, with a 3- to 6-month probation period. 4) Enterprises can dismiss workers in accordance with regulations in the event of changes in production or technical conditions. 5) When a worker violates the rules of an enterprise, he may be subject to punishment ranging from warning and the recording of a demerit to wage reduction to dismissal. 6) An enterprise can choose its own wage system: It can pay its workers by the piece, hour, month or year.

2. Foreign exchange control. 1) A foreign investor may open an account and conduct foreign exchange transactions with the Bank of China in the zone or with another bank approved by the Chinese government. 2) The foreign employees of an enterprise can remit overseas their wages and other legitimate earnings minus income tax in accordance with relevant regulations. 3) An enterprise may remit overseas its legitimate profits minus income tax in accordance with relevant regulations. 4) If an enterprise goes out of business, it is allowed to transfer its assets and remit funds overseas after reporting the closure to the authorities, going through the necessary formalities, and paying off its debts.

3. Preferential tax treatments. 1) Enterprises in a SEZ may import tariff-free machinery, equipment, parts and components, raw materials, means of transportation and other necessary means of production. 2) Articles of daily use can be imported tariff-free. Exceptions are cigarettes and liquors, which are taxed at half the lowest rate, and cosmetics, which are taxed as the law provides. 3) Finished and semi-finished goods produced by SEZ enterprises for the foreign market are exempt from export duties. 4) The income tax rate for enterprises in SEZ is 15 percent. Enterprises capitalized at over \$5 million,

technology-intensive enterprises, and enterprises which require a relatively long period to recoup their investments enjoy additional tax breaks: During the first 2 years after they start making a profit, they will be exempt from paying taxes, followed by 3 years when their tax payments will be reduced by half. In addition, all local surtaxes will be waived. 5) When a foreign investor plows back his profits into his enterprise in the zone for more than 5 years, he may apply for income tax deductibility for such outlays in part or in whole. 6) The exports of a SEZ enterprise are exempt from tariffs and industrial and commercial tax.

4. Land use. 1) A SEZ should satisfy the land use needs of investors and set different maximum land use periods for different purposes, with option for renewal when the period expires provided that permission has been obtained from the department in charge in the zone. 2) Preferential treatment, including exemption, should be offered in the collection of land use fees after taking into account the circumstances in different localities, different industries, and varying land use periods. 3) Criteria for the imposition of land use fees should vary in accordance with industry and location. Preferential treatments should differ accordingly. 4) Land use fees can be paid in one lump sum or annually over a number of years at an annual interest rate of 8 percent. The preferences mentioned above can be reasonably adjusted depending on the circumstances of each locality.

5. The sale of products. While SEZ's encourage enterprises to market their products on the international market, Chinese-foreign joint ventures are allowed to sell a fixed percentage of their products domestically. The percentage may be increased and the enterprise granted a certain amount of foreign exchange as appropriate if the product concerned is made of Chinese raw materials, if the foreign investor involved has provided advanced technology, or if it is something that China has to import otherwise.

6. Entry and Departure. Everything will be done to facilitate the entry and departure of foreign businessmen when they visit the zones as part of a study mission, for sightseeing, or to negotiate business deals, invest, and build plants. For instance, a special SEZ passage may be set aside at a port where private cars from Hong Kong may enter and leave the zone. Customs hours may be lengthened. The number of entry/departure ports may be increased and entry/departure formalities simplified. Foreign businessmen who invest, build factories, finance some kind of project or own residential properties in a zone and who visit the zone frequently should be issued visas good for multiple entry on the production of identification issued by the enterprise in the zone. To make things as convenient as possible for them, inspection authorities at the port should give them priority when they clear customs.

A Number of Noteworthy Points About the Investment Climate

Despite the remarkable improvements in the investment climate in SEZ's as a result of developments in the last couple of years, a number of issues remain when it comes to making them even more attractive and competitive.

1. We must take policy continuity seriously and not change it ever so casually. We should also legislate into law the more important principles and

regulations embodied in policies to give them a legal status, thereby heightening investors' sense of security and trust. The problem now is that some functional agencies and departments in charge in the localities fail to give due consideration to the special conditions in SEZ's so that they often stipulate that "no exception be made for SEZ's" in the documents they issue to their subordinate agencies. As a result, severe limits are placed on the authority that originally belongs to the zones and on the conveniences and preferences due foreign investors, giving foreigners the impression that Chinese policies are fickle. This cannot but affect China's attractiveness to foreign investors. In the future, therefore, policy documents concerning SEZ's must be well coordinated. Even where amendments and improvements are indeed justified, they should be effected through the required procedures. Nor should they be altered at will. We must do our best to win the trust of foreign businessmen.

It must also be emphasized that foreign investors set great store by legal safeguards. While we have formulated a series of special regulations, we must continue the effort to perfect them in order to make foreign investors feel that there is a legal basis for their various economic activities and that they are protected. This is a vital part of the creation of a good investment climate in SEZ's.

2. We must step up infrastructural development. As enterprises spring up in SEZ's, as industry and trade blossom across the board, and as the movements of residents and tourists sharply increase, the idea of relying on infrastructural facilities alone has become grossly inadequate: We must think in terms of an infrastructural structure. Infrastructural structure is as important to urban construction as infrastructural facilities are to a particular developing area. A failure to plan comprehensively for the infrastructure as a whole or to develop it properly can cause the entire area or even city all kinds of adverse consequences. If the infrastructure of a zone remains backward, it will hamper the inflow of foreign capital.

3. We must go out of our way to offer preferential treatment to overseas Chinese investors and investors from Macao and Hong Kong. Most overseas Chinese are highly nationalistic and patriotic and concern themselves with the development of the motherland. As for Macao and Hong Kong compatriots, they feel so close to the motherland that they are part and parcel of it. There is a vast amount of overseas Chinese, Macao, and Hong Kong capital, with estimates putting it at over \$100 billion all told. By investing in China, they help China's four modernizations as well as benefiting themselves economically. All four SEZ's are home to overseas Chinese. For instance, overseas Chinese from the Shantou area and Hong Kong and Macao compatriots number about 6 million in all and are scattered in 34 nations and regions throughout Southeast Asia, Europe and the U.S. Xiamen, also well-known as the hometown of many overseas Chinese, is the birthplace of over 200,000 overseas Chinese and foreigners of Chinese ancestry. The "golden triangle" in southern Fujian has 3.2 million sons and daughters living abroad. Most residents in Shenzhen and Zhuhai have relatives in Hong Kong and Macao. Overseas Chinese investments and investments by Hong Kong and Macao compatriots are playing a vital role in SEZ's as demonstrated by the fact that Hong Kong and Macao capital accounts for 80 percent of combined investments in Shenzhen.

But some problems remain. If we look at the investments, we will see that while investment agreements abound, little capital has actually been invested. Small projects outnumber large projects. Most involve ordinary technology; advanced technology is rarely used. All this shows that the potential of overseas Chinese, Hong Kong, and Macao capital has not been fully tapped. We must step up our effort to attract such capital with the right policies and measures, including preferential treatments. We must further improve the investment environment. To draw the interest of overseas Chinese in investing in China, we should also implement the overseas Chinese policy in earnest.

4. In foreign exchange control, we must satisfactorily resolve the problem of remission of profits by foreign businessmen. As far as preferential treatment is concerned, there remains this problem: In remitting his profits overseas, the foreign businessman has no guarantee that he can obtain foreign exchange. The "Provisional Regulations for Foreign Exchange Control" stipulate that foreign exchange remittances should come from the foreign exchange account of the enterprise. If there is insufficient foreign exchange in the account, then he can remit no exchange. As for the government stepping in to regulate the flow of foreign exchange, that too is fraught with difficulties. This problem should be seriously addressed and resolved.

From the perspective of providing foreign businessman with the right conditions, it is necessary to set up a foreign exchange regulatory market in SEZ's to ease the circulation of foreign exchange. The Shenzhen SEZ has been investigating the prospect here. It should speed up its investigation in order to find a new approach to help foreign enterprises balance their foreign exchange.

5. Improve the quality of the labor force. An abundant labor supply and relatively low wages put China in a strong position to attract foreign investments. But foreign businessmen should be more concerned to upgrade the quality of the labor force. A labor force which is merely cheap but which is unskilled and low in productivity cannot be much of an asset. Besides, wage levels in SEZ's have been going up rather quickly. If we do not improve the quality of the labor force, not only will we fail to meet the demand of importing advanced technology and equipment, but the zones will also become less attractive for foreign businessmen. Nowadays some projects in the zones must recruit in Hong Kong when they import advanced technology. We should take this situation seriously and accelerate the training of workers in the zones to upgrade their technical standards and increase their modern knowledge. This is yet another urgent mission in the improvement of the investment environment.

12581

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SPECIAL ECONOMIC ZONES

SHENZHEN'S ECONOMIC DEVELOPMENT STRATEGY

Guangzhou GUANGDONG SHEHUI KEXUE [SOCIAL SCIENCES IN GUANGDONG] in Chinese No 2, Jun 86 pp 63-66

[Article by Liu Peiqiong [0491 0160 8825]: "What Shenzhen Must Do to Orient Itself to Export"]

[Text] After 6 years of hard pioneering work, the Shenzhen Special Economic Zone [SEZ] is gradually beginning to take shape. Still it remains in an exploratory stage on the road toward development. Following a period of debate, Shenzhen decided to devote itself to the development of export-oriented industries and the fulfillment of its role as a window in the import of capital, technology, knowledge, and managerial experience. This article looks at economic development policies in Shenzhen from a macroeconomic perspective, using whatever data available.

In the beginning, Shenzhen had a population of only about 100,000. As it became a city, people began pouring into it. According to the 1981 census, its population was 350,000. By 1985, it had reached 716,500, of which 470,000 were zone residents, including 230,000 permanent residents and 240,000 transients. In other words, half of the people in the zone were a mobile population with no permanent registered residence. Some of them came from other provinces and municipalities and some from the adjoining villages. The 1981 census shows that the bulk of the population were in the working age group and that there were relatively few children and elderly people. The advantage of such a population structure is the low percentage of dependents, which means a comparatively light burden on social welfare. The disadvantage is that the population has not settled down and lacks a sense of belonging, a minus as far as social construction is concerned.

In 1985, Shenzhen's gross value of social output already reached 6.5 billion yuan. Gross local output was valued at 3 billion yuan, of which industry accounted for 1.52 billion yuan (50.7 percent), the tertiary industry, 1.91 billion (40.5 percent), and the primary industry, 265 million yuan (8.8 percent). In terms of economic structure, Shenzhen's is an urban economy dominated by industry. Of the gross value of industrial output of 2.67 billion yuan, exports accounted for a high 32.3 percent. (Footnote 1) ("Statistical Bulletin on National Economic and Social Development in 1985," Shenzhen Municipal Statistical Bureau, 21 March 1986.)

The absence of employment data prevents us from analyzing the industrial structure. Nevertheless, we can conclude from gross output value data that workers in the secondary industry and employees of institutions and businesses in the tertiary industry make up a significant share of the population.

Shenzhen's gross value of local output is estimated at 3 billion yuan, up 29.8 percent over 1984, with per capita income (net output value) reaching \$1,000. Shenzhen has attained the goal of a relatively comfortable standard of living set for the end of the century. Clearly internal demand alone cannot have made possible such an achievement within a few short years. What Shenzhen has depended on in addition was markets and resources outside the municipality itself.

In the past 8 years, Shenzhen concentrated on infrastructural construction in its investments, which amounted to 6.3 billion yuan. Of this total, state investments accounted for 40 percent; investments by various central ministries and provinces, 35 percent; and local and foreign investments, the remainder. (Footnote 2) (Zheng Jianguang [6774 1367 0342], "A General Discussion on the Infrastructure in the Shenzhen Special Economic Zone," in "Zhongguo Jingji Tequ Nianjian," 1985 edition, p 171.) These are necessary investments and unavoidably require government commitment. Shenzhen still follows the domestic economic system, and it is only under this system that the government becomes responsible for housing and social service facilities.

Table 1 Completion of Infrastructural Projects in Shenzhen

Year	Area under Construction (in 10,000 square meters)	Investments (in 10,000 yuan)
1978	5.8-	1.182-
1979	13.0 (+124.1%)	4.988 (+322%)
1980	34.6 (+166.2%)	12.487 (+150%)
1981	54.6 (+57.8%)	27.039 (+117%)
1982	92.7 (+69.8%)	63.265 (+114%)
1983	146.9 (+110.5%)	88.593 (+40%)
1984	276.0 (+87.9%)	159.083 (+80%)
1985	320.9 (+16.3%)	276.000 (+73%)

Source: Jingji Tequ Nianjian, 1985

Fixed assets investments reached 1,347 billion yuan in 1985, most of them being bank loans and foreign capital. In other words, these investments were dependent on expected returns and repayment ability. The level of these investments is more closely tied to the economic environment and conditions. The distribution of the sources of capital (1979-1984) is as follows: (Footnote 3) "Zhongguo Jingji Tequ Nianjian," 1985 edition, p 197.)

Table 2 Distribution of Sources of Capital (1979-1984)
(in percentage)

Bank loans	28.48
Foreign capital	27.61
Municipal appropriations	11.53
Loans by municipal enterprises	10.60

State investments	7.38
Investments by central ministries, other provinces	6.47
Investments by interior enterprises	4.33
Others	3.55

Source: Jingji Tequ Nianjian, 1985

Industrial investments reached 2.674 billion yuan in 1985, an increase of 60.3 percent over the preceding year. According to Shenzhen municipal data, the distribution and development of the markets of zone products are as follows: (Footnote 4) (Zhou Xiwu [0719 3375 5294] (deputy mayor of the municipality of Shenzhen), "Strive to Make SEZ Industry Export-Oriented," originally published in "Import," No 3, 1985, p 6. "Import substitution" here refers to products sold for foreign exchange on the domestic market.)

Table 3 Market Distribution of the Products of the Zone (in percentages)

Year	1984	1985	1988 (target)
International Market	20.0	25.0	30
Sales within Zone			
foreign exchange	9.7	10.0	20
renminbi	37.5	20.0	-
Import Substitution	4.6	7.0	20
Mainland Sales	28.2	38.0	30

The above data shows that the mainland is the largest market for Shenzhen's industrial products and that exports account for 25 percent of the zone's output. Local demand is limited in a small city with only 700,000 people. Hence its dependence on mainland and overseas markets. When these markets show signs of economic instability, the sale of Shenzhen's industrial products is directly affected. As a result, the zone's very economic structure is a source of instability.

Turning to Shenzhen's export mix, since the zone lacks natural resources, its major exports are electronic, light industrial, and textile products. These products encounter fierce competition on the international market and are subject to numerous restrictions. To remain competitive, Shenzhen must have adequate up-to-date market information.

Table 4 Shenzhen's Export Mix (1985) (in percentages)

Agricultural byproducts and native produce	29.6
Processed agricultural byproducts	16.5
Electronic, light industrial, and textile products	51.7
Industrial and mineral products	2.2

Total output value: \$563.4 million

Source: Statistical Report on National Economic and Social Development in 1985

Shenzhen has attracted over \$1 billion in foreign capital since 1979. In 1985, agreements with a combined value of \$1.02 billion were signed, while \$329 million were actually invested, of which \$180 million were direct investments by foreign companies, \$135 million were foreign loans, and \$13.51

million were commercial credits.

In recent years, Shenzhen has also gone in for joint investments with enterprises in the mainland, investing a total of more than 200 million yuan, primarily in electronics, commerce, construction materials, and agriculture.

The Shenzhen municipal government has a very small budget which probably excludes the expenditures and revenues of enterprises run by the municipality. In 1985, for instance, it more or less balanced its accounts with total revenues at 889 million yuan, provincial subsidies at 20,184,000 yuan and expenditures at 883 million yuan. That expenditures make up 29.4 percent of gross value of local output constitutes a heavy burden on Shenzhen. Needless to say, a big chunk of its expenditures goes to finance infrastructural development.

Although foreign banks have set up branches in Shenzhen, their scope of operations is limited to transactions with businesses financed by foreign capital. Overall the credit situation in Shenzhen is still tied to Chinese policies and hence lacks any active regulatory mechanisms. For this reason, Shenzhen's economic activities are directly related to China's internal policies.

Turning to prices, Shenzhen experienced sharp price increases over the last few years. In 1985, for example, retail prices soared 23.2 percent. Although national income per capita is very high and wages have been adjusted, the gains have been offset by inflation. Since some prices have been adjusted sooner than others, many products are priced far above public purchasing power and cater only to out-of-town tourists. The result is heavy losses.

In 1984, Shenzhen's 270 industrial enterprises earned enough foreign exchange from the sale of their products to cover just 75 percent of their foreign exchange spending on production. Like other areas and cities in the nation, Shenzhen is hard pressed to balance its foreign exchange, something which can hardly be avoided. With limited foreign exchange at its disposal, Shenzhen faces foreign exchange circulation problems. The root of the problems is an irrational exchange rate and a persistent failure to balance market supply with demand. It is the desire to get around this restriction that prompts Shenzhen to consider setting up a "foreign exchange regulatory center" to adjust the exchange rate to a certain extent. However, in the absence of a floating exchange rate, its effects will be minuscule.

Judging from the limited data above, we can see in what ways Shenzhen is equipped to develop an export-oriented economy and the limitations it labors under.

A structure capable of flexible regulation and of reacting to changes in the external conditions, including capital sources and markets, is most essential to an economic system geared to attracting foreign capital and exporting to earn foreign exchange.

As far as Shenzhen is concerned, since its overriding goal is to attract foreign capital, it must create and maintain a stable investment environment.

At present Shenzhen basically follows the same investment laws and practices in effect in the nation. The investment procedures are tedious and overelaborate and the rights and interests of partners in joint ventures are not clearly spelled out. Nor has much thought been given to them. For instance, there are no detailed provisions governing business closings and cash flow difficulties. When an investor closes his business during a recession, it will cost him dearly.

Externally, Shenzhen is vulnerable to destabilizing factors. Internally, it rests on a shaky basis. Moreover, it has to follow the systems in force in the nation and cannot make structural adjustments in time. For instance, it lacks a flexible capital market and interest rates are not fluid enough. Government departments are excessively burdened with the long-term responsibility of providing welfare facilities, including housing and medical services, etc. State-owned enterprises are similarly saddled. There is still a wide gap between the price and wage systems and the free market. Consequently, production costs cannot be lowered and a rigidity sets in with enterprises unable to respond to the national market.

As a small city with only 700,000 people, Shenzhen's internal demand is limited. Besides, a large part of its population consists of transients. Under these circumstances, it is neither possible nor necessary to maintain a stable economic structure. Shenzhen must not be so subject to ideological strictures unfavorable to economic development that it ignores objective conditions and environment.

If it is to develop an export-oriented economy, Shenzhen must equip itself in the following ways:

- 1) It must be an opened city, adopt a relatively liberal policy to attract foreign capital, make things easy for foreign businessmen when they invest in or withdraw from a venture, reduce the costs and simplify the procedures of opening a business, and formulate clear legislation to facilitate enterprise cash flow.
- 2) A rudimentary infrastructure is now in place. In the future, the government should undertake infrastructural projects only as long as resources permit. In public finance, the tax system and public spending system should be reformed to reduce the burden on investors. Administrative procedures should be streamlined and departments well coordinated to improve efficiency.
- 3) The labor market should be reformed. There should be changes in the wage and price systems to make the labor market more flexible.
- 4) The social welfare system should be reformed to adapt it to the development of a city with a high degree of population mobility.
- 5) To meet the unstable character of an export-oriented economy, Shenzhen should open up internal sources of capital by encouraging private individuals to pool resources and invest in industries or services to create an all-round local economic structure, which will cushion the impact of external factors. Up to a point, internal accumulation can function as a stabilizing force. Moreover, it will lessen the burden on the government coffers and increase government revenues.

An export-oriented economy must be based on comparative cost advantage. Right now Shenzhen industry still cannot compete on the international market.

Therefore, industry should be encouraged to gear themselves to the domestic market as well as long as it does not become dependent on imported materials in the process. To a certain extent, this kind of geographical division of labor and export promotes economic development, and even if imported materials are used, it will still benefit the national economy provided that costs are lowered and the resultant products can replace imports. In view of conditions in the international market, it is a pragmatic move to permit the zone to orient itself to the Chinese market. Supported by the domestic market, Shenzhen will then be better placed to upgrade its industrial production standards and pave the way for an export drive.

Finance, price, and foreign exchange are complex issues which cover a wide area. Before the economic system is overhauled and connections with the interior are completely severed, there remains a barrage of barriers to major reform. Shenzhen must contemplate gradual improvement as it reforms the labor market, capital market, and government administration. Under no conditions should it rush headlong into action.

Because of a shortage of time and data, many issues have not been examined in depth. These are only tentative ideas.

12581

CSO: 4006/1292

POPULATION

ON BEIJING'S AGING POPULATION

Beijing BEIJING RIBAO in Chinese 7 Jul 86 p 3

[Article by Shi Yan [4258 1484] and Shi Lin [4258 2651]: "Analyzing the Aging of Beijing's Population and Measures To Cope With the Situation"]

[Excerpts] 1. Projection, Analysis of Aging of Beijing's Population

Basing on an analysis of data from a 1982 investigation by a relevant department, we can project as follows: Presupposing a continued implementation of all current population policies, the overall trend in the age composition of Beijing's population, prior to the year 2032, will be: a decline, wave after wave, in the number of children, youths, and persons in the prime of their lives, a steep increase in the number of old people, and a progressive increase of the old-age proportion in the composition of the population.

In the next 50 years, the aging of Beijing's population in absolute figures will on the whole proceed in four phases: (1) The period from 1982 to 2000 will be a phase of rapid increase. During this phase, the total number of old people aged 60 or more will increase from 791,000 to 1,611,000, an increase of 103.7 percent. The average annual increase will be 45,000 persons, an average annual rate of increase of 4 percent. (2) The period from 2001 to 2010 will be a phase of slow increases. During this phase, the increase in the population of aged people will temporarily slow down; the increase will be from 1,611,000 to 1,833,000, an increase of 13.8 percent. With an average annual increase of 22,000 persons, the average annual rate of increase will be 1.4 percent. (3) The period from 2011 to 2025 will be a second phase of large-scale increases. During this phase, the number of aged will increase from 1,833 to 3,092,000, an increase of 68.7 percent. With an average annual increase of 83,900 persons, the average annual rate will be 4.6 percent. (4) From 2026 to 2030, increases will again proceed at a slower pace. During this phase, the number of aged will increase from 3,092,000 to 3,154,000, an increase of 2 percent. With an average annual increase of 12,400 persons, the average annual rate of increase will be 0.4 percent. In other words, during the next half century, the aging of Beijing's population will proceed in two fast and two slow stages.

Apart from the vigorous start and the steep upturns in the aging of Beijing's population, as stated above, this development is also basically characterized by the following: A large absolute magnitude of the aged population and an incessantly growing proportion of aged depending on social support. In the next 50 years, the number of old people aged 60 and more will increase from 791,000 to 3,141,000, an almost threefold increase. The change in the proportion of aged to the total population shows in that in 1982 there was 1 old person aged 60 or more for every 11.7 permanent residents; in 2000 there will be 1 aged person for every 6.8 residents; in 2010 there will be 1 aged person for every 6.1 residents; in 2020 there will be 1 aged person for every 4.3 residents; in 2032 there will be 1 aged person for every 3.5 residents. In other words, in the thirties of the next century, there will be 1 old person aged 60 or more among every 3 residents. The number of persons of very advanced ages of 80 or more years will increase rapidly. During the period from 1982 to 2000, the number of old persons aged 80 or more in Beijing will increase 2.99-fold, at an average annual rate of 7.2 percent, faster than the 4 percent increase in the number of old persons in their sixties and seventies. The average educational level of the aged will be the highest in the country. Among those aged 60 or more in Beijing, 3.3 percent are graduates from universities, 2.8 percent have had senior high school, 6.3 percent junior high school, and 24.9 percent elementary school education, while 62.7 percent are illiterate or semi-illiterate. Compared with the situation throughout the entire country, the proportion of university-educated aged persons is 10 times that of university-educated aged persons in the nation as a whole, and on the other hand the proportion of illiterate and semi-illiterate persons is lower than the average figure for the country as a whole. There is a larger number of leading party and government cadres and of specialized technical cadres in Beijing. The proportion of Beijing's aged who at one time had held responsible positions in state organs, in party or mass organizations, in enterprises, and in industrial units or who had served as government personnel, is 2.6 times larger than the average for the entire country. The proportion of specialized technical cadres of all kinds is about 1.7 times the average level for the whole country. The livelihood requirements during their remaining years--apart from what is generally required by aged people--are at an even more elevated level as regards intellectual needs and a share in social developments.

2. Measures To Solve the Problems of Population Aging

We believe that the strategic objectives in solving the problems related with the aging of the population must be, on the one hand, a control of population growth, and, on the other hand, guarding against an overaged state of the population. In population reproduction we must strive to achieve a stable development of the age composition of the population, and to have population development advance in full harmony with the economic and social development. To achieve the above-stated objectives, we may proceed in two stages. The first stage would be to effectively carry out certain preparatory work before the year 2000, to ready us for the coming high tide of population aging. First, we have to do a good job of ideological preparation, to be ready to answer all kinds of theoretical and ideological questions regarding population aging. Second, we have to do a good job of material preparation, to make the necessary readjustments in the apportionment of economic and social

requirements, to effectively prepare for health care, recreation and livelihood service facilities for the aged. Third, we have to do a good job of legislative preparation, to safeguard the legitimate rights and interests of the aged and to ensure social stability and unity. Fourth, we must do a good job of preparing the construction of our spiritual civilization, establish and promote excellent moral habits, and bring about the general social acceptance of respecting, honoring, and supporting the aged. At the same time, we must energetically and effectively solve the aging problems that have already surfaced.

During the second stage, from the year 2000 on, presupposing the impetus of a steady economic and social progress of considerable magnitude, we must effectively solve the primary needs of the huge group of aged, gradually adjust our population policies, and induce a more stable and rational age composition of the population.

In concrete terms, our work during the two stages has to be: A further amplification and perfection of the social security system and insistence on the revolutionary direction of the integration of socialized administration with unit administration, to be predominantly socialist administration. We must first of all reform the system of having state-run and large collective enterprises raise their own retirement funds and must institute as quickly as possible the overall unified appropriation of retirement funds and gradually institute overall unified administration of retiring employees and workers. Measures should be taken to solve the problem of declining living standards of some of the retiring employees and workers. We must at the same time establish a sound system of old-age pensions in newly established collective enterprises. We must study and formulate a retirement insurance policy for contract labor, temporary labor, for staff and workers in the various joint enterprises, and for self-employed workers. Because of the gradual increase in the proportion of aged and their increasing numbers, we must, in addition to pensions provided by the state or the collectives, energetically develop social insurance facilities, establish a financial organ for retirement insurance funds, and through a variety of channels raise a retirement reserve fund, also encourage individuals and household to save up in retirement funds.

Another important aspect is the adjustment of the production structure, so as to fit it to the changes brought about by the aging in the composition of the population. One consideration is that the production structure must conform to the annual upward trend in the average age of the labor force and that a production structure of mainly knowledge-intensive and technology-intensive forms must be adopted as quickly as possible. Another consideration is that because of the increasing ages in the population there are bound to be changes in the social consumption structure. We must strengthen the production and supply of clothes, foodstuffs, and utensils for the aged, solve difficulties the aged may have in making their purchases, and energetically set up tertiary industries that serve the aged, especially household service trades for the aged.

The aged have abundant experiences. The capital is a gathering place of aged intellectuals, and should, therefore, more fully manifest the role of the aged as "treasure houses of knowledge." The following are our suggestions in this

respect: Instituting a flexible retirement system. In the case of aged personnel who are in good health, who have technical skills, and who are actually needed by their units, the retirement age may be deferred, or they may be employed on a half-time or hourly basis, in this way advocating that the aged should work for society or for their families to the utmost of their abilities, depending on the special circumstances of the persons and places involved, and have them serve as consultants to enterprises or industrial units. Expediting educational facilities for the aged, to assist them in updating their knowledge, and to provide the preconditions for their participation in social development.

It is absolutely necessary to make positive and effective arrangements for the livelihood of the aged. We must implement a policy that gives priority to prevention, we must enhance the state of health of the aged, prevent sicknesses from occurring, also provide convenient and effective health and medical facilities. Currently, there is a serious shortage of medical facilities for the aged in this city. The difficulty of obtaining medical treatment is an extremely acute problem for the aged. From now on, clear and definite provisions must be made, and these should be enforced as soon as possible. Moreover, we must expedite the institution of welfare facilities for the aged and as soon as possible transform them from mere relief measures to social welfare measures, also transform them from measures merely financed by the state to such that are financed jointly by state, collectives, and individuals. Service facilities for the aged may be provided in a variety of forms, either free of charge, partly free of charge or completely self-supporting. The question of "old-age homes" was brought up as a means of solving actual livelihood needs of the aged and is also well worth while our consideration.

Approaching the question from the ideological angle, we must further strengthen education throughout the entire society toward respecting, honoring, loving, and supporting the aged, making this an important organic component of our efforts toward spiritual civilization in the capital. We must vigorously push the formulation of policies, laws, and regulations that will protect the legitimate rights and interests of the aged. The schools must make education toward respecting, honoring, loving, and supporting the aged one of the subjects of the moral education of students. At the same time, the aged must be educated to uphold the revolutionary ideals, maintain integrity in their later years, show solicitude for and actively participate in social developments, and to work to the utmost of their ability for the establishment of the two kinds of civilizations in the capital.

We believe in order to scientifically resolve the problem of aging of the population, to accurately guide the aged in peacefully spending their later years, and to have such research work as sociology of the aged, psychology of the aged, pedagogics of the aged, and physical culture of the aged promptly catch up with developments, the leading departments in charge must give a sufficient amount of serious attention to such work, and have Beijing march in the forefront of the entire nation as far as such work is concerned.

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TRANSPORTATION

TRANSPORT CARGO VOLUME SHOWS INCREASE

HK270450 Beijing CHINA DAILY (BUSINESS WEEKLY SUPPLEMENT) in English 20 Aug 86
p 3

[Text] China's transport network system painted a mixed picture in the first six months of this year. Cargo transport showed growth while passenger transport declined.

According to newly released figures from the State Statistical Bureau, cargo volume reached 1.23 billion tons, an increase of 3.6 percent over the same period last year. Of the total, railroads carried 660 million tons of cargo, an increase of 3.9 percent; highways, 320 million tons, up 1.2 percent; waterways, 250 million tons, up 5.4 percent; air freight, 99,600 tons, up 10.6 percent.

Cargo volume reached 823.2 billion ton-kilometres, a rise of 6.4 percent. Of the total, rail cargo volume reached 426.1 billion ton-kilometres, up 8.4 percent; highways, 17.27 billion ton-kilometres, equivalent to the same period last year; waterways, 379.6 billion ton-kilometres, up 3.9 percent; air freight, 195 million ton-kilometres, up 5.1 percent.

Passenger volume reached 2.6 billion people, a decline of 0.4 percent. Of the total, railways carried 520 million passengers in the first six months, a decline of 12.2 percent; highways, 2.15 billion, up 2 percent; waterways, 125 million, a drop of 7.8 percent; air freight, 4.22 million, up 28.1 percent.

Passenger volume totalled 218.3 billion passenger-kilometres, a raise of 2.9 percent. Of the total, passenger volume of railways reached 122.4 billion passenger-kilometres, up 1.4 percent; highways, 81.6 billion passenger-kilometres, up 5.9 percent; waterways, 8.24 billion passenger-kilometres, a decline of 4.9 percent; air travel, 6.03 billion passenger-kilometres, up 17 percent.

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CSO: 4020/11

TRANSPORTATION

BRIEFS

RAILWAY CONSTRUCTION PROJECTS--Beijing 29 September (XINHUA)--Work is in full swing on double-tracking the Hengyang-Guangzhou Railway and building the Datong-Qinhuangdao Railway, with more than 100,000 people participating. Both these projects are important capital construction tasks during the Seventh 5-Year Plan. Since the beginning of this year, more than 300 million yuan have been spent on the double-tracking of the Hengyang-Guangzhou Railway, equivalent to over 60 percent of the total investment made during the eight preceding years in this project. As for the Datong-Qinhuangdao Railway, some 100 kilometers of track have been laid and a number of tunnels and bridges completed by this time. [Summary] [Beijing XINHUA Domestic Service in Chinese 0704 GMT 29 Sep 86 OW] /12913

DIRECT CHARTERED FLIGHTS BEGIN--Dalian, 24 September (ZHONGGUO XINWEN SHE)--The chartered direct flight between Dalian and Hong Kong has been formally inaugurated. At 3:15 pm today, a Trident from Hong Kong safely landed at Dalian Airport and thus completed the first flight. The Hong Kong China International Tourist Ltd. Co. runs the plane chartering business in Hong Kong and the Shenyang Civil Aviation Bureau provides the Trident passenger plane. There will be one chartered direct flight between Dalian and Hong Kong every Wednesday, leaving Dalian at 7:50 am and arriving at Hong Kong at 11:30 am and then leaving Hong Kong at 12:20 pm for the mainland. [Report: "Chartered Direct Flight Between Dalian and Hong Kong Inaugurated"] [Text] [Hong Kong ZHONGGUO XINWEN SHE in Chinese 0855 GMT 24 Sep 86 HK] /12913

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